RESMED

Strong growth.
Unlimited potential.

RESMED FORM 10-K

2004

Annual Report 2004

Contents

Annual Report Contents

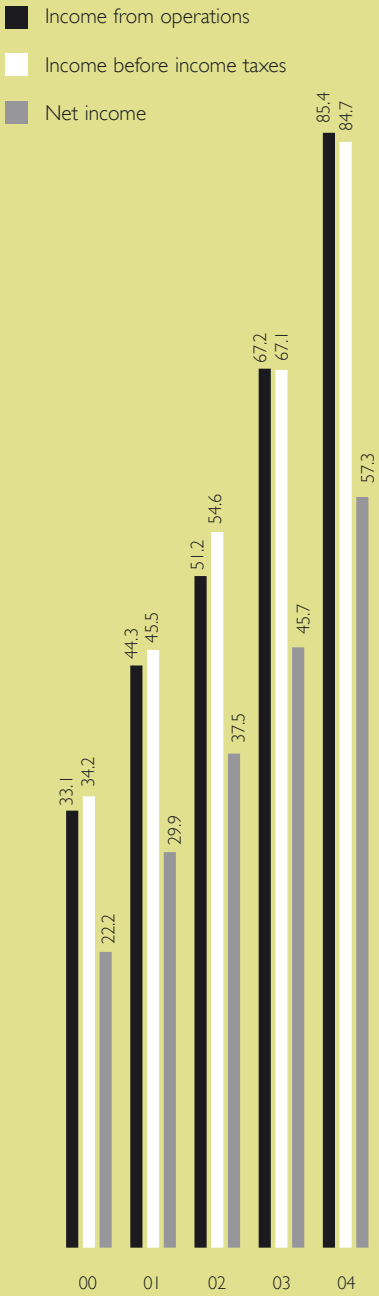
Statements in this Annual Report that are not historical facts are "forward-looking" statements under the US Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements regarding our future revenue, earnings, or expenses; new product development; and new markets for our products. Foward-looking statements are subject to risks and uncertainties that could cause our actual results to materially differ from the results the forward-looking statements project or imply. Some of those uncertainties are: our ability to compete successfully in our market; foreign currency exchange rate movements, tariffs, and other risks that affect our global operations; the regulatory environment; and the willingness of third-party payers to reimburse for the sale of our products. The Annual Report on the Form 10-K for our most recent fiscal year discusses the risks and uncertainties. Other reports that we file with the US Securities & Exchange Commission also discuss them. Those reports are available on our Web site.

ResMed's singular focus is the business of sleep and, more specifically, sleep-disordered breathing. The market remains vastly under penetrated, which represents both a tremendous business opportunity and a serious public health problem. We aim to educate physicians and the public about the health risks of untreated sleep-disordered breathing and to deliver the best therapy on the market. We are committed to improving patients' lives by leading the industry in both clinical education and product development. By raising awareness about sleep-disordered breathing and serving the needs of our patients and customers, we will continue to drive the long-term growth of our company and the industry as a whole.

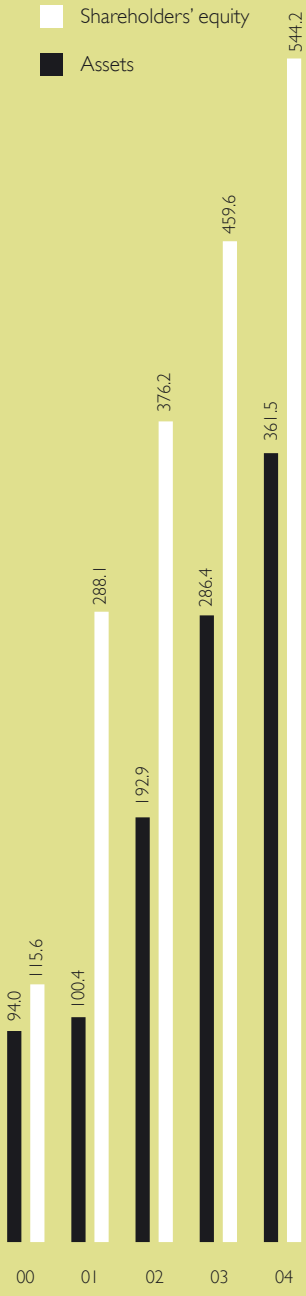
Financial Summary

The quarter ending June 30, 2004 marked our 37th consecutive quarter of growth. The fiscal year 2004 showed an increase in net income of 25%. Net revenue increased by 24% to $339.3 million, and operating cash flow increased 29% to $76.5 million. EPS (on a diluted basis) increased by 23%.

The increase in net revenue was attributable to an increase in unit sales of our flow generators, masks, and accessories. This growth primarily reflects increased public and physician awareness that treating sleep-disordered breathing improves health and quality of life.



INCOME
$M



ASSETS AND SHAREHOLDERS' EQUITY
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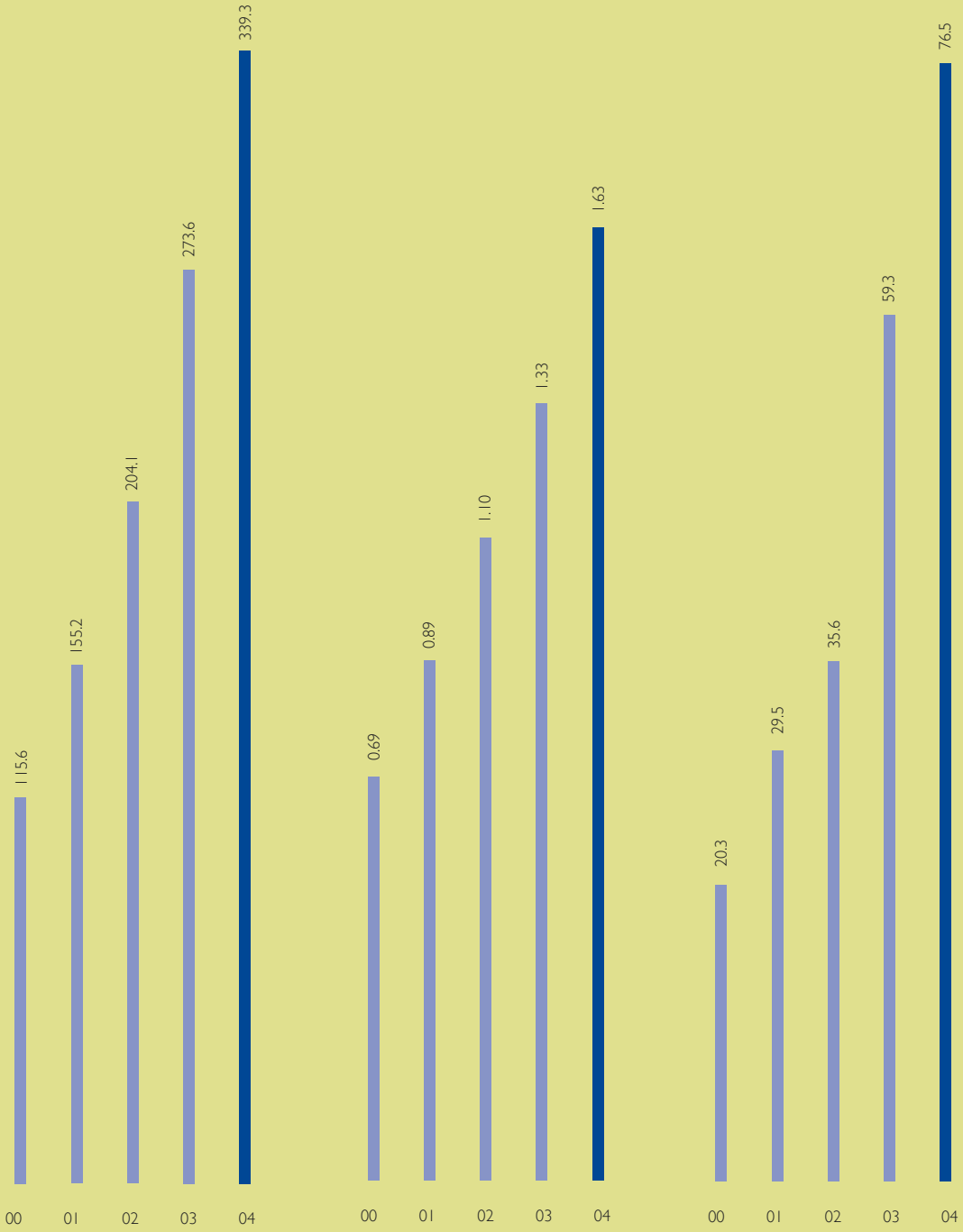


NET REVENUE
$M

NET INCOME
(per common share equivalent)
$

CASH FLOW FROM OPERATIONS
$M

Chairman's Report

Once again, I am pleased to report record performance from the company on both top and bottom lines. The dedication of our team has, once again, allowed us to carry forward ResMed's legacy of outstanding financial performance. In fiscal year 2004, we grew our sales by 24 percent over the prior year to reach $339.3 million in revenues. Net income for the year rose 25 percent to $57.3 million, or 17 percent of our revenues. Earnings per fully diluted share were $1.63, an increase of 23 percent over the prior year's $1.33. Operating income was $85.4 million, an increase of 27 percent over the prior year.

Total operating cash flow for fiscal year 2004 was a record $76.5 million, an increase of 29 percent over the previous year. Cash and cash equivalents and marketable securities were $140.9 million at the end of fiscal year 2004, an increase of 16 percent over last year. The strength of the balance sheet is also reflected in an increase of 15 percent in total current assets to $277.8 million; total assets were $554.2 million. Shareholders' equity increased 26 percent to $361.5 million from $286.4 million in the prior year, reflecting excellent growth in shareholder value.

Wall Street has taken notice of our financial performance and our history of delivering growth to our shareholders. On June 30th, 2004, RMD closed at $50.96, a 30 percent increase over the prior year. Earlier that month, we were recognized as one of *BusinessWeek*'s 100 Hot Growth Companies based on our three-year results in sales growth, earnings growth, and return on invested capital. We have made *BusinessWeek*'s list in five of the last six years. In addition, for the seventh consecutive year, *Forbes* magazine named ResMed one of the 200 Best Small Companies in America. As pleased as I am with the results we have achieved so far, we must continue to deliver much more to patients, as well as customers, shareholders, and employees. We will work to educate physicians and the public about the serious health consequences of undiagnosed sleep-disordered breathing (SDB). We will continue to invest in research and development to deliver the best products that we can to patients; we will also continue to expand our global operations in order to drive international market growth.

The SDB market is expected to grow from approximately $495 million in 2001 to over $1.1 billion worldwide in 2006 (Frost & Sullivan, 2004), although we believe these estimates are on the conservative side. I'm convinced that, even in the United States, our most mature sleep market, we have only scratched the surface of this opportunity. We believe that over 40 million Americans have SDB, but only 10 percent of them have ever been diagnosed. As the population ages, and as the average body mass index continues to climb, the need to treat the disorder will only increase. Research shows that the majority of people with drug-resistant hypertension, atrial fibrillation, stroke, type 2 diabetes, and congestive heart failure have SDB at a clinically significant level. We are encouraged by the ever-growing body of clinical data on the positive health impact of diagnosing and treating SDB.

Increasingly, scientific evidence supports not only the significant health benefits to individuals of diagnosing and treating SDB and obstructive sleep apnea (OSA), but the substantial economic and

Chairman's Report

societal benefits as well. A study by Drs. Alex Sassani and Terry Davidson, a ResMed Medical Advisory Board member, both of the University of California, San Diego, conservatively estimated that almost 1,000 lives could be saved annually in the US as well as over $15.9 billion in direct costs (if one includes medical expenses, lost productivity, administrative costs, damage to vehicles, and cost to employers) by more pervasive treatment of SDB in drivers.

In a more clinical vein, *Circulation*, the main journal of the American Heart Association, published a study in July 2004 demonstrating that people with atrial fibrillation, or an irregular heart rhythm, are more likely to have sleep apnea than other cardiology patients. Virend K. Somers, MD, PhD, professor of medicine in the division of cardiovascular diseases at the Mayo Clinic, found that 49% of the atrial fibrillation patients in this study were identified as high risk for sleep apnea compared with 32% of general cardiology patients, a figure which, in and of itself, is worryingly high. Apoor S. Gami, MD, also of the division of cardiovascular diseases at the Mayo Clinic, and lead author of the study, predicts that atrial fibrillation will affect more than 5 million people by the year 2050. More importantly, Gami observed that the association of OSA with atrial fibrillation was greater than the association of sleep apnea with traditional risk factors such as body mass index, neck circumference, and hypertension. The study suggests that there appears to be a unique interaction between atrial fibrillation and the physical responses to sleep apnea. During an apnea, breathing is interrupted, oxygen levels in the blood drop, carbon dioxide levels in the blood increase, the sympathetic nervous system is activated, and forceful breathing efforts result in dramatic pressure shifts across the cardiac chambers. These untoward events, if left untreated over time, are thought to predispose patients with untreated SDB to atrial fibrillation.
These types of studies are an integral part of the ongoing efforts to educate the medical community, as well as the public at large, about the dangers of undiagnosed and, therefore, untreated SDB. In areas where we have a dominant product offering, we have targeted opportunities to educate physicians about comorbidities associated with SDB/OSA. We continue to gain traction with our cardiology program, and we recently launched a bariatric surgery initiative. On the cardiology front, we are working with industry leaders, in particular Guidant, to host joint symposia at cardiology meetings across the world. In addition, this year at the Annual Meeting of the American Society for Bariatric Surgery in San Diego, we launched an initiative to educate bariatric surgeons on the risks to patients of untreated SDB/OSA. Our Mirage Activa™ Nasal Mask and AutoSet™ devices are uniquely able to address the dynamic and ongoing needs of this high-risk and growing patient population. The Mirage Activa Nasal Mask fits the changing contours of the face as patients lose weight, while the AutoSet Spirit™ algorithm tracks and adjusts to patients' pressure needs and measures both treatment compliance and efficacy of treatment. These products are ideal for the bariatric surgery market as they are able to respond automatically to meet changing patient needs.

In addition to educating clinicians, we are working to raise public awareness of SDB across the world. Our programs cover the gamut from working with the Automobile Association in Germany, to initiating direct-to-consumer advertising in Australia, to launching a national public awareness campaign in the US. After 15 years in this space, ignorance on the part of both physicians and patients still remains our foremost competitor. But each day is an important victory in this battle as more and more people, including physicians, are beginning to wake up to sleep.

Our commitment to continued innovation has allowed us since inception to bring superior products to patients, and this year we introduced three new mask products and two new devices to the market. We also released our Boomerang™ software solutions, which enable customers to enhance both patient care and inventory management. Importantly, we also recently introduced ApneaLink™, a single-channel screening device, that will allow physicians to rapidly and easily identify patients who are likely to have SDB. This device, developed by MAP, our German subsidiary, has been successfully marketed in Europe as the MicroMESAM™. This tool will benefit patients who would not otherwise be diagnosed and will allow non-sleep-trained physicians to screen patients for SDB/OSA, which will in turn drive traffic through sleep labs. And, since nasal CPAP is such a safe therapy, under the guidance of sleep-trained personnel, patients will undoubtedly go straight to treatment.

In the first half of fiscal year 2004, we introduced our Ultra Mirage™ Full Face Mask and the revolutionary Mirage Activa Nasal Mask; the latter performs better than any other mask we have produced. Subsequently, at the Associated Professional Sleep Societies' conference in June, we previewed our Mirage Swift™ Nasal Pillows System, which rounds out our top-quality line of patient interfaces. The Mirage Swift nasal pillows sytem is being released in the first half of fiscal 2005.

We also introduced the AutoSet Respond™ this year into the price-sensitive US market, as we continue to push for reimbursement changes that would speed the US adoption of

the AutoSet Spirit, which, quite simply, remains the best option for patient care. We will continue to educate regulators, physicians, and patients to bring this superior treatment to more patients in the US. In addition, we launched our new bilevel unit, the VPAP™ III, which operates on the same platform as our CPAP devices and offers enhanced features for effective patient management. We are proud of these new product offerings.

With the success of the ResMed Centers for Healthy Sleep in Australia, we have continued to expand our international presence through new distribution channels such as pharmacies and shop-fronts. We will open centers in Barcelona, Stockholm, and the UK, with more to come. This year we were also delighted to occupy our new ResMed Campus in northwest Sydney. The Norwest facility triples our production capacity, and with new prototyping technologies we recently introduced, we have reduced the time needed to create mask components literally from days to hours.

In the last year, we have taken investment in our employees to the next level. Our proactive human resources department formed the ResMed Learning Center to provide leading edge, performance-based learning programs and accelerated development plans in customer service, selling strategies, technical skills, executive leadership, and management development.

We had some important personnel changes over the last year as well.

Dr. Chris Roberts left the company to become CEO of Cochlear Limited, and we wish him well in his new role. We will miss his leadership on the management team, but we are pleased that he has chosen to remain on our Board of Directors.

We recently named Kieran Gallahue President of ResMed Global. Kieran has been President and Chief Operating Officer of the Americas since he joined ResMed in January 2003. He will now be responsible for global operations, new business development, and product innovation.

We have assigned Paul Eisen responsibility for sales and marketing for both Europe and Asia Pacific, and we have asked Dr. Klaus Schindhelm to take on technology and business development in those regions. Dr. Grant Carter joined us from General Electric to head up our Compliance and Channel Management efforts. Grant will be responsible for implementing the Six Sigma™ quality system that spans design and manufacturing to customer service.

In the US, Keith Serzen will be providing focused business leadership to our sales and marketing organization as our new Senior Vice President of Sales, Marketing, and Clinical Education for the Americas. Keith comes to us with extensive management experience at Nellcor, Heart Stream, and, most recently, Theracardia, where he was CEO. We continue to build our field organization and this year significantly expanded both our clinical education and key accounts groups. This reflects our continued commitment to delivering high quality service to our major customers and to educating physicians about SDB.

We are also investing in corporate communications, and in June we hired Hillary Theakston to direct investor relations and public relations. In large part, our past performance has spoken for us. Increasingly, we will be speaking to our strategies and goals for the future.

I have said many times that we are in an exciting business. We are very fortunate to be in an industry where we can profoundly impact patients' lives. Patient testimonials in the following pages of this annual report demonstrate the success of our products. More importantly, they represent our passion for patient care. Delivering the best therapy to patients has always been at the core of our culture. SDB is still a largely unaddressed medical need and, therefore, a major public health problem that needs to be tackled urgently. Our mission is to answer that need with education and superior products. We will continue on our mission of waking people up to sleep.

PETER C FARRELL

Chairman and Chief Executive Officer, ResMed Inc.

Board of Directors

PETER C FARRELL
Chairman and Chief Executive Officer, ResMed Inc.

CHRISTOPHER A BARTLETT
Thomas D Casserly Professor Emeritus, Harvard Business School

DONAGH MCCARTHY
Currently consulting with Pharmedium Healthcare Inc., a privately held pharmacy services business. Formerly President and CEO, Protiveris Inc. and President, Baxter Renal Division North America.

GARY W PACE
Chairman, QRxPharma and former CEO of a number of bio-pharmaceutical research and development companies

MICHAEL A QUINN
CEO of Innovation Capital and formerly CEO of a medical device company and co-founder of NYSE listed environmental company

CHRISTOPHER G ROBERTS
CEO and President, Cochlear Limited

LOUIS A SIMPSON
President and CEO
Capital Operations, Geico Corporation

(From left to right)
CHRISTOPHER G ROBERTS
GARY W PACE
MICHAEL A QUINN
PETER C FARRELL
DONAGH MCCARTHY
CHRISTOPHER A BARTLETT

(Absent)
LOUIS A SIMPSON

Growing Markets

Scientists estimate that in the United States alone, **43 million people (20% of the adult population)** suffer from obstructive sleep apnea (OSA),[1] the most common form of sleep-disordered breathing. OSA has been linked with stroke and heart failure, two of the three leading causes of death in the developed world. The growth in scientific evidence has accelerated over the past year to point to one conclusion—sleep-disordered breathing has a significant impact on a person's health. Hypertension, diabetes, heart diseases, and stroke are all associated with OSA. However, we believe that as many as 90% of people in the US who have OSA remain undiagnosed and untreated. We are committed to working with the medical community to increase awareness of the dangers of OSA, targeting the areas where improvements in the rate of diagnosis can lead to the most effective treatment.

GROWING EVIDENCE

"Obstructive sleep apnea is associated with conditions that account for the leading causes of mortality in adults: hypertension, cardiovascular, and cerebrovascular diseases."[2]

"Metabolic syndrome was nine times more likely to be present in subjects with OSA."[3]

"There is a growing consensus that OSA is an important risk factor for hypertension… even at the mild end of the OSA severity spectrum."[4]

"The most recent recommendations published in 2003 have included OSA as first on the list of identifiable causes of hypertension."[5]

"Obstructive SAHS [sleep apnea-hypopnea syndrome] is a risk factor for ischemic stroke, particularly for strokes presenting at night."[6]

"Sleep apnea is an independent risk factor for increased insulin resistance."[7]

"This study adds to the growing body of evidence linking sleep apnea with vascular dysfunction in older subjects."[8]

"Obstructive sleep apnea is commonly associated with obesity and also is often present in patients with established cardiac and vascular disease."[9]

"[E]vidence…strongly suggests a causal interaction between OSA and several cardiovascular disease conditions."[10]

OSA is now a well-documented risk factor in motor vehicle collisions: "Subjects with untreated OSAS [obstructive sleep apnea syndrome] perform as poorly on simulated steering and psychomotor reaction time tests as legally intoxicated control subjects." "

"Treatment of OSA among patients with CHF [congestive heart failure] leads to improvement in cardiac function, sympathetic activity, and quality of life."[12]

"Sleep is associated with adverse hemodynamic changes in women with preeclampsia. These changes are minimized with the use of continuous positive airway pressure."[13]

"Adaptive Servo Ventilation [ASV*] produces an improvement in excessive daytime sleepiness in patients with Cheyne-Stokes breathing and chronic heart failure."[14]

"We conclude that long-term respiratory therapy with adaptive servo-ventilation has sufficiently suppressed CSR [Cheyne-Stokes respiration] and improved cardiac function in patients with congestive heart failure."[15]

"ASV* is well tolerated and improves SDB and quality of life of patients with heart failure with CSR."[16]

"Men with moderate/severe OSA have endothelial dysfunction and treatment with nCPAP [nasal continuous positive airway pressure] could reverse the dysfunction."[17]

"Nocturnal treatment of OSA is accompanied by lower daytime blood pressures."[18]

"Preliminary data suggest that treatment of both OSA and CSA in patients with heart failure may have important beneficial effects."[19]

"The treatment of OSA in CAD [coronary artery disease] patients is associated with a decrease in the occurrence of new cardiovascular events, and an increase in the time to such events."[20]

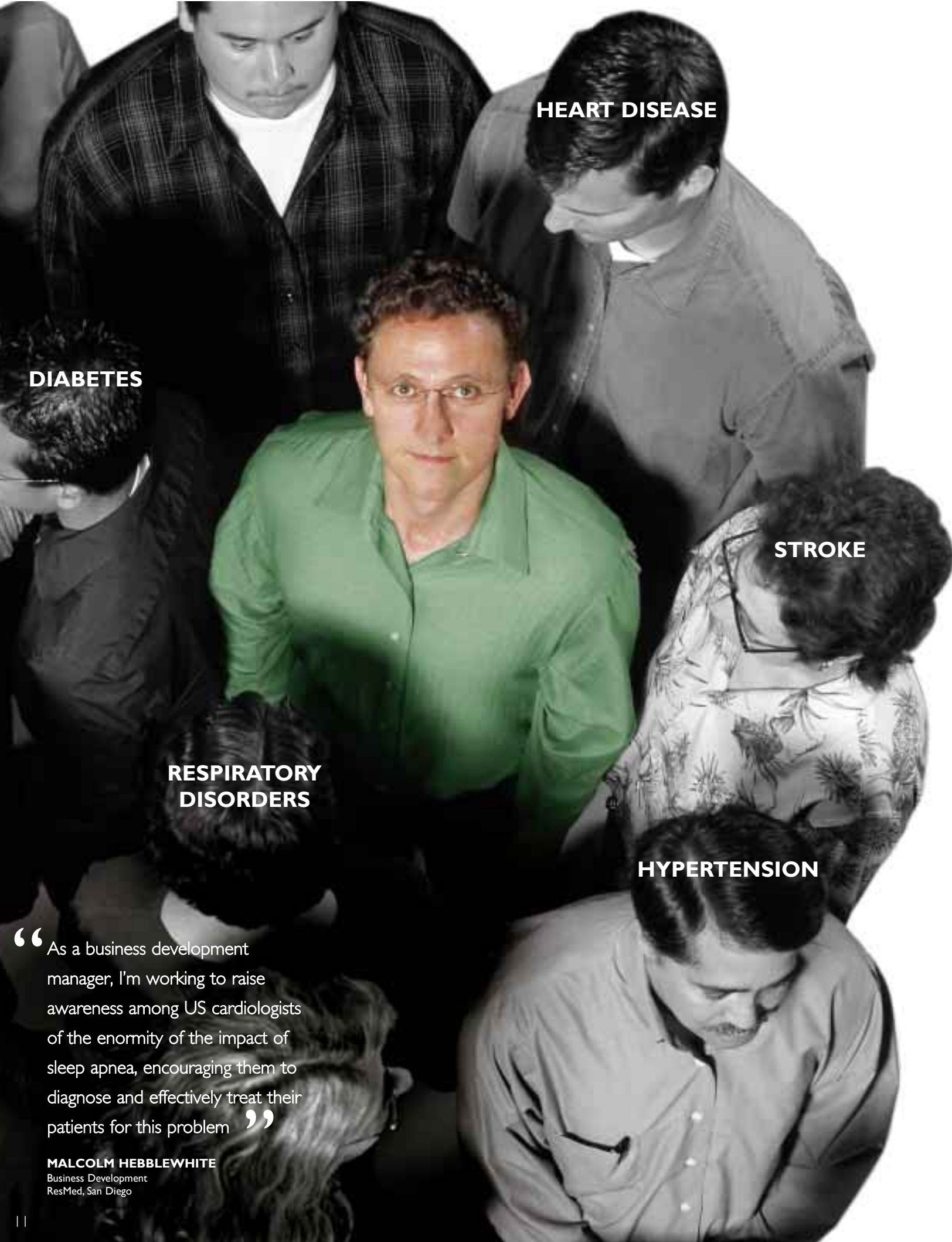
* Provided by ResMed's AutoSet CS™ 2 device.

OUR SOLUTIONS

We listen to clinicians and patients and create devices to meet their needs. We add to our product line to simplify diagnosis and cater to the growing number of patients who can benefit from our devices.

Sleep apnea is a global problem—ResMed has a global response

The research comes from all around the world—UK, US, Germany, Japan, Spain, Hong Kong, Australia, France, and Israel. ResMed is driving global research and the global market with offices in 14 countries and distributors in dozens more.



"As a business development manager, I'm working to raise awareness among US cardiologists of the enormity of the impact of sleep apnea, encouraging them to diagnose and effectively treat their patients for this problem"

MALCOLM HEBBLEWHITE
Business Development
ResMed, San Diego

Growing Awareness

ResMed is committed to waking people up to sleep.

By educating physicians and the general public, we increase awareness of the health risks associated with untreated sleep-disordered breathing. To provide the best products for treatment, we incorporate feedback from patients and physicians into a continuous program of innovation.

CARDIOLOGY

We launched a new device to treat patients with congestive heart failure in Europe in late 2003. The AutoSet CS2 provides adaptive servo-ventilation treatment that is safe and well tolerated by these very sick patients.[1,2] It enhances their quality of life, with increased compliance resulting from the improved comfort of the treatment. We also focus on educating physicians on the benefits of continuous positive airway pressure (CPAP) treatment for patients with coronary artery disease and obstructive sleep apnea.[3] Specifically, we collaborate with Guidant and Medcath, two well-established cardiac companies, to educate cardiologists by hosting educational symposia on the benefits of these therapies for their patients.

BARIATRICS

In June 2004, ResMed sponsored a symposium at the American Society for Bariatric Surgery annual meeting. This event launched a program to educate physicians about the need to treat their bariatric (gastric bypass) patients for sleep-disordered breathing (SDB). More than 70% of patients preparing for bariatric surgery suffer from sleep apnea. In these patients, sleep apnea is associated with increased complications and higher hospital costs. Our Mirage Activa Nasal Mask and AutoSet devices provide a unique treatment system for these patients, adapting to their changing needs as weight loss alters their body shape and pressure requirements.

Ignorance is the public's worst enemy when it comes to sleep. We are working to raise public awareness of SDB across the globe. This year we launched **www.healthysleep.com**, an educational Web site that provides information and resources on SDB. In Germany, we are working with the Automobile Association to raise awareness of the increased risk of accidents among drivers with untreated sleep apnea. In Australia, we have initiated a direct-to-consumer advertising campaign. In the US, we have launched a national public awareness campaign in cooperation with other industry participants.

> "Addressing sleep disorders has serious implications for public safety, the treatment of disease, and quality of life"
>
> Harvard Medical School press release May 11, 2004

Three endowed chairs in the field of Sleep Medicine were created at **Harvard Medical School** in May 2004 to take awareness of SDB right into the core of physician training and research. Two of the chairs were funded by unrestricted gifts from other sleep therapy companies. ResMed's CEO Peter Farrell has personally funded the third chair—the Peter C. Farrell Professorship of Sleep Medicine—and ResMed will provide additional financial support.

The physicians and scientists on our Medical Advisory Board are respected in their fields of SDB and cardiology and are committed to growing the field of sleep medicine. **We work with the Board** to identify new opportunities to develop our products to improve therapy and to extend the use of sleep therapy into new areas.

Growing Relationships

ResMed has established a wide network of relationships between our sales and clinical teams, our distributors, and their local clinicians and specialists. This year we expanded our direct relationships with clinicians and patients in Australia when two new sleep centers opened on the east coast. As well as being retail outlets, these are centers of excellence for sleep-disordered breathing, providing a range of services including monitoring in the home. These centers also offer clinical and administrative support to our growing distribution network. Our first center in Spain (Barcelona) and a new shop in the UK are near completion and will offer the same high standard of service.

We've grown our virtual message, too, setting up **MyResMed.com, a Web site** for our US and Canadian patients. This site provides educational resources on sleep-disordered breathing (SDB), as well as practical information, such as mask fitting and cleaning instructions. The site was launched in February 2004 and almost **4,000 hits were logged in the first two days.**

We also introduced the **ApneaLink home screening system.** The ApneaLink is a boon to both patients and clinicians—a tiny device that can be used at home to gather information about breathing during sleep, tracking events such as apneas and snoring. Physicians can use the ApneaLink to rapidly and easily screen patients with suspected SDB.

We're creating **simpler ways of transferring information** between the patient and the clinician to get the most out of sleep therapy. We've created products that help clinicians monitor the progress of their patients, such as the **ResLink**™ that attaches to the flow generator and gathers information about a patient's treatment. When the clinician displays the data using **ResMed software**, a detailed picture emerges of how effectively the patient is being treated. The clinician can then customize treatment parameters to **maximize benefits.**

Growing numbers of patients with COPD (long-term lung diseases such as emphysema and chronic bronchitis) can now be treated without invasive tubes and surgery by using devices such as the ResMed VPAP series. We're **forming relationships** with a range of specialists **so our devices can be used in many parts of the hospital,** not just in the sleep clinics. Patients benefit from fewer complications and can even use the device at home, vastly improving their mobility. This **noninvasive therapy** is part of the global move to keep patients in their homes for as long as possible—**reducing hospital costs** and **enhancing patients' quality of life**.

“I’m the link between patients and the product development teams. Patients provide feedback on their needs and experiences, and we use this to create new products and improve existing products”

TANIA RONCOLATO
Clinical Research
ResMed, Sydney

Growing Trust

"My original ResMed Sullivan™ CPAP is more than 10 years old (30,000 hours+). I thought you had built a perpetual motion machine. It was and is still working well at this writing, although held in reserve now that I use the AutoSet Spirit. The Spirit is a vast improvement over the ResMed Sullivan. It is silent and highly efficient. It is smaller and lighter. Perhaps the best part about the Spirit is knowing that it is made and distributed by ResMed. I know, like the original ResMed Sullivan, that it is of the highest quality and dependable. The second best thing is that I still have my original ResMed Sullivan CPAP for a backup."

JOHN BOHL
March 16, 2004

NEW PRODUCTS DELIVER BETTER THERAPY

As we develop new products, we look for new ways to improve on patient comfort because patients use comfortable treatment consistently, making it more effective. Our continuous positive airway pressure (CPAP) devices treat people who need a set treatment pressure—in 2004, we will launch the S8™ range, designed to be compact and easily transported so travel is no obstacle. Our variable positive airway pressure (VPAP) series of devices treat people with respiratory disorders who benefit from having a variable treatment pressure that automatically changes according to their own breathing effort. This year we introduced the VPAP III series, with superior data management capability and synchronization features. The HumidAire 2i™ can be added to provide integrated humidification. The Mirage Activa Nask Mask provides a high level of comfort, and its unique cushioning decreases air leak—two factors that help patients get the most out of their therapy.

We also develop new products for the growing number of disease states that respond to treatment with positive airway pressure devices. Our AutoSet CS2 devices are being used in Europe as a new treatment for patients with Cheyne-Stokes respiration or central sleep apnea associated with congestive heart failure.

CONSTANT INNOVATION DELIVERS IMPROVED PRODUCTS

Last year we promised "continuous innovation to develop new products and improve existing products" and in 2004 we've delivered on that promise. A new generation of flow generators, the S8 range, and a whole new approach to masks, our nasal pillows system, the Mirage Swift, are being launched in 2004 to give our customers a lighter, more compact system. An integrated humidifier, the HumidAire 3i™, completes the picture for easy, portable sleep therapy.

“. . . the best part about the AutoSet Spirit is knowing that it is made and distributed by ResMed”

JOHN BOHL
Clarksburg, California

We aim to continually improve our products, and our customers appreciate it. In June of this year Darren Cromer (Territory Sales Manager, Indiana, US) received the following letter from a customer he had recently fitted with a Mirage Activa Nasal Mask at the local sleep clinic:

"First I am aware of your efforts to get me the Mirage Activa Nasal Mask, after you saw the great need I had for it. You certainly went well beyond the usual and customary path of delivery of your product, and for that I am ever so grateful.

Now let me describe my feelings after the initial usage of the Mirage Activa. Never have I been so comfortable with a face mask after using more than ten different models and types.

My daughter has a friend who uses CPAP and she advised me before I started using it. Her warning was to be sure that I was fitted correctly with the mask and then I would be well satisfied and comfortable with CPAP. Well, Mr Cromer, I now feel that I have reached that goal, suggested to me by the friend, and you and your product are the reason for that feeling of satisfaction."

FRANK O HARPER
DDS
June 17, 2004

The Mirage Activa was launched in September 2003. Designed to maximize comfort and minimize air leak, the Mirage Activa has an "active cell," an inflatable chamber that sits between the patient's face and the mask. This chamber can expand and contract with the therapy, like a form of independent suspension, protecting delicate skin from the mask during the natural movement that occurs in sleep.

Growing Assets

PRODUCTS

The ResMed treatment system works by delivering pressurized air to the patient so that they can breathe normally through the night. We offer an entire system—flow generator, mask or nasal pillows, and humidifier. We also help clinicians monitor their patients' progress with data collection products and supporting software.

This year we launched the Mirage Activa, AutoSet Respond, Ultra Mirage Full Face Mask, AutoSet CS2, and a range of humidifiers and data management products. The year has also seen the development of **a new generation of products,** incorporating the reliability and expertise from previous products in a lighter, more compact package.

The S8 line of flow generators will provide the same high standard of sleep therapy in a tiny casing that is easy to travel with and easy to use in the home. Clinicians can collect data from the S8 to monitor and control the patient's therapy, using familiar ResMed products and software.

The S8 can be teamed with the Mirage Swift nasal pillows system to make the lightest, most portable system around. The Mirage Swift—a whole new market area for ResMed—is the lightest nasal pillows system available. It's flexible, unobtrusive, and comfortable, while retaining seal and stability.

PRODUCTION

The result of our expanding market is that we simply need more product, so **we built a bigger production facility.** Our new ResMed campus in Australia, set on 30 acres of land, is a purpose-built site, designed to meet our needs into the future. It triples the size of our production area and is convenient to the growing suburbs of northwest Sydney where many of our staff members live.

The campus is being built in two stages, with stage one housing production and stage two housing administration. Stage one was completed on schedule in April 2004 and was immediately set up for production. We purchased extra equipment—such as more liquid silicone rubber molding machines for manufacturing our masks. Our capacity to grow has also been enhanced by new technology for creating mask prototype components, cutting the time from days to hours. By June, we had already achieved a significant increase in production.

STAFF

Our biggest asset is our staff. In a global company like ResMed, we expect peak performance from all staff members whatever their role or location. **Our direct employees and distributors are spread over 60 countries**, so we maintain a balance between autonomy and adherence to company objectives—this lets our staff work to their best capacity while retaining focus and efficiency. From the evidence of sales, product research and development, and production levels, it is a strategy that continues to work.

RESEARCH

We continue to invest over 7% of our net revenues in research and product development—that's a bigger dollar figure every year, demonstrating our commitment to continue global leadership in sleep medicine based on innovative technology.

The ResMed brand is one of our biggest assets. We protect it, and the names of our products, with a strong legal team. ResMed's investment in R&D is protected globally by **over 1000 patents and designs** granted and pending by June 30, 2004.

Growing Returns

The quarter ending June 30 marked our 37th consecutive quarter of growth. We've maintained a growth rate in excess of 25% per year in both revenues and net income since listing in June 1995. (This excludes 2001 MAP acquisition costs and 2003 SARS-related product sales.)

And our growth hasn't gone unnoticed. We've been named again (for the fifth time in six years) to the *BusinessWeek* list of 100 Hot Growth Companies. *Forbes* magazine ranked ResMed at #35 on their list of 200 Best Small Companies in America—our 7th consecutive year on the list.

Our markets are growing globally, particularly our four biggest—US, Germany, France, and Japan as well as our home base in Australia—because we help people. We help people obtain a diagnosis, and we listen to their needs. We provide reliable products that give relief, improve long-term health, and restore quality of life.

We're increasing our efficiency to respond rapidly to market needs with Six Sigma, Lean, and World Class Manufacturing objectives.

We continue to grow with a focused and committed Board of Directors. Our Medical Advisory Board provides us with considerable insight into technological advancements in the field of sleep medicine and ensures that we place a high value on innovation that can continue to meet the growing needs of the medical world.

We provide reliable products that give relief, improve long-term health, and restore quality of life.

And our customers return. . .

"I am writing to tell you how much I am enjoying the Mirage Activa mask, and now the Mirage Swift nasal pillows. I have not slept this well in almost two years. Most important, if you do not know it already, you are fortunate to have such an outstanding, dedicated employee as Iris Fink.

I have sleep apnea. Without the use of CPAP, I would never have a night's rest. I have used CPAP masks for years. For the past six to eight months, for whatever reason, I was no longer comfortable in any of my CPAP masks and could not achieve a good night's sleep. I was ready to return to my pulmonary consultant when Iris sent me a Mirage Activa to try. It is undoubtedly the most comfortable mask I have ever worn. It requires almost no adjusting and allowed me more freedom of movement than any other mask. It remains in place all night, does not leak, is quiet, and most importantly, I was sleeping again!

I thought this was as good as it gets until I used the Mirage Swift nasal pillows device. It is a totally different experience than the nasal pillows I have tried in the past. The Swift is easy to adjust, very quiet, remains in place, does not limit my sleep positions or come off during my sleep, requires almost no adjusting, fits in place instantaneously, and allows me to keep my glasses on for reading, television, etc, prior to falling asleep. Now I am hooked on the Swift and will never use another device. I think you have an instant winner in both of these instruments. I have informed my Pulmonary Physician, and I tell my patients to specify ResMed products when they are diagnosed with a sleep disorder requiring CPAP.

Sincerely,

VICTOR E SILVERMAN
MD, FACP, FACE
August 5, 2004"

Medical Advisory Board

ResMed's international Medical Advisory Board (MAB) consists of **physicians and scientists** specializing in the fields of SDB and cardiology. MAB members consult with management on various projects.

CLAUDIO BASSETTI, MD, is a neurologist with expertise in general neurology, stroke, and sleep medicine. He is a leader in studying the implications of SDB on stroke and is Head of the Neurology Outpatient Clinics and Vice-Chairman of the Neurology Department at the University Hospital, Zurich. Dr. Bassetti is a board member of the European Neurological Society, and of the Swiss Societies of Neurology, Neuroscience, and Sleep and sits on the editorial boards of the *Journal of Sleep Research*, *Sleep Medicine*, and *Swiss Archives of Neurology and Psychiatry*. Dr. Bassetti has produced over 100 publications.

MICHAEL COPPOLA, MD, is a leading pulmonary, critical care, and sleep disorders physician and is President of Springfield Medical Associates, a multi-specialty medical group in Springfield, Massachusetts. He is an attending physician at Baystate Medical Center and Mercy Hospital and a Fellow of the American College of Chest Physicians. Dr. Coppola is also the Medical Director of Sleep Ave LLC, a sleep-disordered breathing specialty company with sites in Massachusetts, Louisiana, and Texas, and Associate Clinical Professor of Medicine at Tufts University School of Medicine.

TERENCE M DAVIDSON, MD, FACS, is Professor of Surgery in the Division of Otolaryngology—Head and Neck Surgery at the University of California, San Diego School of Medicine. He is Section Chief of Head and Neck Surgery at the Veterans Administration, San Diego Healthcare System, and Associate Dean for Continuing Medical Education at the University of California, San Diego. He is also Director of the UCSD Head and Neck Surgery Sleep Clinic in La Jolla, CA.

ANTHONY N DEMARIA, MD, is Professor of Medicine and Chief, Division of Cardiology at the University of California, San Diego, specializing in cardiac imaging techniques, particularly echocardiography. He is a Diplomat on the American Board of Internal Medicine and is board certified by the Subspecialty Board in cardiovascular disease. He is past President of both the American College of Cardiology and the American Society of Echocardiography. Dr. DeMaria is currently Editor-in-Chief of the *Journal of the American College of Cardiology* and has authored or co-authored over 400 articles for medical journals.

NEIL J DOUGLAS, MD, DSc, FRCP, is Chairman of the MAB and Professor of Respiratory and Sleep Medicine, University of Edinburgh, an Honorary Consultant Physician, Royal Infirmary of Edinburgh, and Director of the Scottish National Sleep Laboratory. He is President of the Royal College of Physicians of Edinburgh, past Chairman of the British Sleep Society, and past Secretary of the British Thoracic Society. Dr. Douglas has published over 200 papers on breathing during sleep.

NICHOLAS HILL, MD, is Professor of Medicine at Tufts University School of Medicine and Chief, Pulmonary, Critical Care, and Sleep Division, Tufts–New England Medical Center in Boston. He is a Fellow and Chair of the Home Care Network as well as a member of the Network Steering Committee for the American College of Chest Physicians. For the American Thoracic Society, Dr. Hill is Chair of the Program Committee for the Critical Care Assembly as well as a member of the Planning Committee. Dr. Hill's main research interests are in the acute and chronic applications of noninvasive positive pressure ventilation (NPPV) for treating lung disease as well as the pathogenesis and therapy of pulmonary hypertension.

BARRY J MAKE, MD, is Director, Emphysema Center and Pulmonary Rehabilitation National Jewish Medical and Research Center, and Professor of Pulmonary Sciences and Critical Care Medicine of the University of Colorado School of Medicine. He has served on numerous national and international committees for respiratory diseases. Dr. Make's research and clinical investigations have resulted in a large number of publications on mechanisms, treatment, and rehabilitation of chronic respiratory disorders. His areas of focus are long-term noninvasive ventilation and chronic obstructive pulmonary diseases including emphysema.

BARBARA PHILLIPS, MD, MSPH, FCCP, is Professor of Pulmonary, Critical Care, and Sleep Medicine at the University of Kentucky College of Medicine. She directs the Sleep Center, Sleep Clinics, and Sleep Fellowship at the Samaritan Sleep Center in Kentucky. Dr. Phillips serves as a board member of the National Sleep Foundation, on the Health and Science Policy Committee of the American College of Chest Physicians, and on the Clinical Practice Committee of the American Thoracic Society. She has been a recipient of a Sleep Academic Award from the National Institutes of Health, President of the American Board of Sleep Medicine, and a member of the Advisory Board to the National Center of Sleep Disorders Research. Her research interests are the epidemiology of sleep-disordered breathing and sleep disorders in the aged.

HELMUT TESCHLER, MD, is Professor of Medicine and Head of the Department of Respiratory Medicine, High Dependency Unit, and Center of Sleep Medicine at the Ruhrlandklinik, Medical Faculty, University of Essen, Germany. He is a Fellow of each of the following associations: German Pneumology Society, American Thoracic Society, European Respiratory Society, and American Sleep Disorders Association.

J WOODROW WEISS, MD, is Associate Professor of Medicine and Co-Chairman of the Division of Sleep Medicine at Harvard Medical School, as well as Chief, Pulmonary, Critical Care, and Sleep Medicine, Beth Israel Deaconess Medical Center, Boston, MA. He is an internationally recognized researcher in sleep disorders medicine.

B TUCKER WOODSON, MD, FACS, is Professor of Otolaryngology and Communication Sciences at the Medical College of Wisconsin, a Diplomat of the American Academy of Sleep Medicine, and a Fellow of the American Academy of Otolaryngology—Head and Neck Surgery and the American College of Surgeons. He is the Director of the Medical College of Wisconsin/Froedert Memorial Lutheran Hospital Center for Sleep. Dr. Woodson also sits on multiple committees for the American Academy of Sleep Medicine and American Academy of Otolaryngology.

ResMed Board Committees

ResMed's Board of Directors has established the following committees.

AUDIT COMMITTEE: Chaired by Michael A. Quinn, with members Donagh McCarthy and Louis A. Simpson, the Audit Committee's primary purpose is to assist the Board in fulfilling its responsibilities for overseeing management's conduct of ResMed's financial reporting processes. The Committee reviews the annual and quarterly financial statements with management and the company's independent auditor. It also reviews quarterly earnings announcements and discusses them with management and the auditor before they are released. It is directly responsible for the appointment, compensation, and review of the work of the independent auditor. The Audit Committee also reviews any major changes to accounting principles and practices.

NOMINATING AND CORPORATE GOVERNANCE COMMITTEE: Chaired by Gary W. Pace, with members Donagh McCarthy, Christopher A. Barlett, Michael A. Quinn, and Louis A. Simpson, the Nominating and Corporate Governance Committee's goal is to ensure that the composition, practices, and operation of the Board contribute to value creation and effective representation of ResMed stockholders. The Committee provides assistance to the Board and to the Chairman and CEO in the areas of membership selection, committee selection and rotation practices, evaluation of the overall effectiveness of the Board, and review and consideration of developments in corporate governance practices.

COMPENSATION COMMITTEE: Chaired by Christopher A. Barlett, with members Donagh McCarthy and Gary W. Pace, the Compensation Committee assists the board in evaluating and approving the policies governing compensation of ResMed's executive officers, its incentive compensation programs, and director compensation. It also assists the board in evaluating and developing candidates for executive positions.

Corporate Governance

ResMed is committed to effective corporate governance. At the core of corporate governance lies the Board of Directors. We have always had a strong and independent board. Only one of its seven members is an employee. Our board members do not hesitate to speak their minds, and they aren't afraid to stand up and be counted. They ensure that we continue to manage the business for the long-range interests of our shareholders.

Our board has three core committees—the audit committee, the nominating and corporate governance committee, and the compensation committee. Each is composed entirely of independent directors. Their roles are discussed more specifically above, but each works hard to review, approve, and monitor the major financial and business activities of the company.

We stay abreast of and comply with all the latest regulations of the US Securities and Exchanges Commission, the New York Stock Exchange, and the Australian Stock Exchange. We have strong accounting supervision and principles.

But in the end, fundamentals count. And all the structures and procedures in the world cannot substitute for character. There can be no compromise when it comes to ethics and integrity. There is no alternative in the long run in business (or any pursuit for that matter) to being ethical and having integrity. It is the *sine qua non*—the indispensable element of any business. Our people are committed to these values, and we put them into action every day. We believe it's good for our business, good for our shareholders, and good for all of us.

Financial Report

Contents

Financial Report Contents

Report of Management

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

This section should be read in conjunction with the following selected financial data and Consolidated Financial Statements and notes. All dollar figures are in $US.

ResMed designs, manufactures and markets equipment for the diagnosis and treatment of sleep-disordered breathing (SDB) conditions, including obstructive sleep apnea (OSA). Our net revenues are generated from the sale and rental of our various flow generator devices, mask systems, accessories and other products, and to a lesser extent from royalties and sales of custom motors.

We have invested significant resources in research and development and product enhancement. Since 1989, we have developed several innovations to the original 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 OSA, such as the AutoSet T™ and AutoSet Spirit flow generators.

OVERVIEW

ResMed is a leading developer, manufacturer and distributor of medical equipment for treating, diagnosing, and managing SDB. SDB includes OSA and other respiratory disorders that occur during sleep. When we were formed in 1989, our primary purpose was to commercialize a treatment for OSA developed by Professor Colin Sullivan. This treatment, nasal Continuous Positive Airway Pressure, or nCPAP, was the first successful noninvasive treatment for OSA. CPAP systems deliver pressurized air, typically through a nasal mask, to prevent collapse of the upper airway during sleep.

Since the development of nasal CPAP, we have developed a number of innovative products for SDB, including airflow generators, diagnostic products, mask systems, headgear, and other accessories. Our growth has been fuelled by geographic expansion, increased awareness of SDB as a significant health concern among physicians and patients, and our research and product development effort.

We employ 1,520 people and sell our products in over 60 countries through a combination of wholly owned subsidiaries and independent distributors.

Our Web site address is www.resmed.com. We make our periodic reports, together with any amendments, available on our Web site, free of charge, as soon as reasonably practicable after we electronically file or furnish the reports with the Securities and Exchange Commission.

CORPORATE HISTORY

ResMed Inc., a Delaware corporation, was formed in March 1994 as the ultimate holding company for our domestic, Australian and European operating subsidiaries. On June 1, 1995, we completed an initial public offering of common stock and on June 2, 1995 our common stock commenced trading on the NASDAQ National Market. On September 30, 1999 we transferred our principal public listing to the New York Stock Exchange (NYSE), trading under the ticker symbol RMD. On November 25, 1999, we established a secondary listing of our shares via Chess Depositary Instruments, or CDIs, on the Australian Stock Exchange (ASX), also under the symbol RMD. Ten CDIs on the ASX represent one share of our common stock on the NYSE. On July 1, 2002, we converted our ASX listing status from a foreign exempt listing to a full listing.

Our Australian subsidiary, ResMed Holdings Limited, was originally organized in 1989 by Dr. Peter Farrell to acquire from Baxter Center for Medical Research Pty Limited, or Baxter, the rights to certain technology relating to CPAP treatment as well as Baxter's existing CPAP device business. Baxter had sold CPAP devices in Australia since 1988, having acquired the rights to the technology in 1987.

Since formation we have acquired a number of operating businesses including Servo Magnetics Inc, Labhardt AG, MAP Medizin Technologie GmbH, Dieter W. Priess Medtechnik, Premium Medical SARL, Innovmedics Pte Ltd and EINAR Egnell AB on May 14, 2002; November 15, 2001; February 16, 2001; February 7, 1996; June 12, 1996; November 1, 1997; and January 31, 2000 respectively. During the 1999 fiscal year we made an equity investment in Medcare Flaga hf (Medcare), based in Iceland. We now market Medcare's polysomnographic products under the Embla® and Embletta® label in selected countries.

FIVE–YEAR COMPARISON OF SELECTED FINANCIAL DATA

The following table summarizes certain selected consolidated financial data for, and as of the end of, each of the fiscal years in the five-year period ended June 30, 2004. The data set forth below should be read in conjunction with the Consolidated Financial Statements and related notes included elsewhere in this Report.

CONSOLIDATED STATEMENT OF INCOME DATA: YEARS ENDED JUNE 30

(In thousands, except per share data)

	2004	2003	2002	2001	2000
Net revenues	$339,338	$273,570	$204,076	$155,156	$115,615
Cost of sales	122,602	100,483	70,827	50,377	36,991
Gross profit	**216,736**	**173,087**	**133,249**	**104,779**	**78,624**
Selling, general, and administrative expenses	104,706	85,313	64,481	49,364	36,987
Research and development expenses	26,169	20,534	14,910	11,146	8,499
In-process research and development write-off	—	—	350	17,677	—
Donations to Research Foundations	500	—	2,349	—	—
Provision for restructure	—	—	—	550	—
Total operating expenses	**131,375**	**105,847**	**82,090**	**78,737**	**45,486**
Income from operations	**85,361**	**67,240**	**51,159**	**26,042**	**33,138**
Other income (expenses):					
Interest income (expense), net	(1,683)	(2,549)	(3,224)	(762)	801
Government grants	—	—	—	72	279
Other, net	990	1,907	108	1,962	(52)
Gain on extinguishment of debt	—	529	6,549	—	—
Total other income (expenses)	**(693)**	**(113)**	**3,433**	**1,272**	**1,028**
Income before income taxes	84,668	67,127	54,592	27,314	34,166
Income taxes	27,384	21,398	17,086	15,684	11,940
Net income	**57,284**	**45,729**	**37,506**	**11,630**	**22,226**
Basic earnings per share	$1.70	$1.38	$1.17	$0.37	$0.74
Diluted earnings per share	$1.63	$1.33	$1.10	$0.35	$0.69
Basic shares outstanding	33,694	33,054	32,174	31,129	30,153
Diluted shares outstanding	35,125	34,439	34,080	33,484	32,303

CONSOLIDATED BALANCE SHEET DATA: AS OF JUNE 30

(In thousands)

	2004	2003	2002	2001	2000
Working capital	$217,238	$191,322	$142,809	$144,272	$47,550
Total assets	**544,159**	**459,595**	**376,191**	**288,090**	**115,594**
Long-term debt, less current maturities	113,250	113,250	123,250	150,000	—
Total stockholders' equity	**$361,499**	**$286,433**	**$192,930**	**$100,366**	**$93,972**

FISCAL YEAR ENDED JUNE 30, 2004, COMPARED TO FISCAL YEAR ENDED JUNE 30, 2003

NET REVENUES. Net revenue increased for the year ended June 30, 2004 to $339.3 million from $273.6 million for the year ended June 30, 2003, an increase of $65.7 million or 24%.

The increase in net revenue was attributable to an increase in unit sales of our flow generators, masks and accessories. Sales also benefited from an appreciation of international currencies against the US dollar (increasing sales by approximately $18.6 million). Net revenue in North and Latin America increased to $166.1 million from $130.7 million for the years ended June 30, 2004 and 2003 respectively. This growth primarily reflects increased public and physician awareness of SDB. Net revenue in international markets increased to $173.2 million from $142.8 million for the years ended June 30, 2004 and 2003 respectively. International sales growth for the year ended June 30, 2004 reflects organic growth in the overall SDB market and appreciation of international currencies against the US dollar. Sales for the previous year ended June 30, 2003 included non-recurring SARS-related sales to China of approximately $5.0 million. Excluding the impact of these sales, international sales grew by 26%. Excluding both the impacts of the appreciation of international currencies against the U.S. dollar and SARS-related sales, international sales grew by 12%.
Sales of flow generators for the year ended June 30, 2004 increased by 18% compared to the year ended June 30, 2004 including increases of 20% in North and Latin America and 16% elsewhere. Sales of mask systems, motors and other accessories increased by 31% including increases of 33% in North and Latin America and 29% elsewhere, for the year ended June 30, 2004 compared to the year ended June 30, 2003. These increases primarily reflect growth in the overall SDB market and appreciation of international currencies against the US dollar.

GROSS PROFIT. Gross profit increased for the year ended June 30, 2004 to $216.7 million from $173.1 million for the year ended June 30, 2003, an increase of $43.6 million or 25%. Gross profit as a percentage of net revenue increased for the year ended June 30, 2004 to 64% from 63% for the year ended June 30, 2003. The small improvement in gross margin reflects a more favorable product mix due to increased sales of higher margin products, partially offset by the impact of higher manufacturing costs resulting from a stronger Australian dollar against the US dollar, as the majority of manufacturing labor and overhead costs are incurred in Australia.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased for the year ended June 30, 2004 to $104.7 million from $85.3 million for the year ended June 30, 2003, an increase of $19.4 million or 23%. As a percentage of net revenue, selling, general and administrative expenses for the year ended June 30, 2004 was 31%, consistent with the year ended June 30, 2003. The increase in selling, general and administrative expenses was primarily due to an increase in the number of sales and administrative personnel and other expenses related to the increase in our sales. The increase in selling, general and administrative expenses was also attributable to appreciation of international currencies against the US dollar which added approximately $8.1 million to our expenses as reported in US dollars.

DONATIONS TO FOUNDATIONS. In the year ended June 30, 2004 we donated $0.5 million to the ResMed Sleep Disordered Breathing Foundation. The Foundation's overall mission is to educate both the public and physicians about the inherent dangers of untreated SDB/OSA, particularly as it relates to cerebrovascular and cardiovascular disease.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses increased for the year ended June 30, 2004 to $26.2 million from $20.5 million for the year ended June 30, 2003, an increase of $5.7 million or 28%. As a percentage of net revenue, research and development expenses were 7.7% for the year ended June 30, 2004 compared to 7.5% for the year ended June 30, 2003. The increase in research and development expenses was due to increased salaries associated with an increase in personnel and increased charges for consulting fees, clinical trials and technical assessments incurred to facilitate development of new products. The increase also reflects an appreciation of the Australian dollar against the US dollar, as the majority of research and development costs are incurred in Australian dollars. The appreciation of international currencies against the US dollar added approximately $3.8 million to our research and development expenses as reported in US dollars.

OTHER INCOME (EXPENSES), NET. Other income (expenses), net increased for the year ended June 30, 2004 to net expense of $0.7 million from net expense of $0.1 million for the year ended June 30, 2003. The increase in other expense was attributable to no gains on extinguishment of debt this year compared to $0.5 million for the year ended June 30, 2003 and lower net foreign currency exchange gains, partially offset by lower interest expense due to the reduction in convertible note debt.

INCOME TAXES. Our effective income tax rate increased to 32.3% for the year ended June 30, 2004 from 31.9% for the year ended June 30, 2003. The marginally higher tax rate was primarily due to the geographical mix of taxable income. We continue to benefit from the Australian corporate tax rate of 30%, because we generate a majority of our taxable income in Australia.

FISCAL YEAR ENDED JUNE 30, 2003, COMPARED TO FISCAL YEAR ENDED JUNE 30, 2002

NET REVENUES. Net revenue increased for the year ended June 30, 2003 to $273.6 million from $204.1 million for the year ended June 30, 2002, an increase of $69.5 million or 34%.

The increase in net revenue was attributable to an increase in unit sales of our flow generators and accessories. Sales also benefited from an appreciation of international currencies against the US dollar (increasing sales by approximately $16.8 million) and inclusion of sales of $6.5 million from Servo Magnetics Inc. (SMI), the subsidiary we acquired in May 2002. Net revenue in North and Latin America increased to $130.7 million from $100.9 million for the years ended June 30, 2003 and 2002 respectively. This growth primarily reflects increased public and physician awareness of SDB. Net revenue in international markets increased to $142.8 million from $103.1 million for the years ended June 30, 2003 and 2002 respectively. International sales growth for the year ended June 30, 2003 reflects organic growth in the overall SDB market, appreciation of international currencies against the US dollar, and SARS-related sales to China of approximately $5.0 million.

Sales of flow generators for the year ended June 30, 2003 increased by 29% compared to the year ended June 30, 2002 including increases of 23% in North and Latin America and 33% elsewhere. Sales of mask systems, motors, and other accessories increased by 40% including increases of 35% in North and Latin America and 47% elsewhere, for the year ended June 30, 2003 compared to the year ended June 30, 2002. These increases primarily reflect growth in the overall SDB market, appreciation of international currencies against the US dollar, and our acquisition of SMI.

GROSS PROFIT. Gross profit increased for the year ended June 30, 2003 to $173.1 million from $133.2 million for the year ended June 30, 2002, an increase of $39.9 million or 30%. Gross profit as a percentage of net revenue decreased for the year ended June 30, 2003 to 63% from 65% for the year ended June 30, 2002, reflecting the impact of higher manufacturing costs resulting from a stronger Australian dollar against the US dollar, as the majority of manufacturing labor and overhead costs are incurred in Australia and, to a lesser extent, the inclusion of SMI's motor sales which achieve lower margins compared to our overall gross margin.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased for the year ended June 30, 2003 to $85.3 million from $64.5 million for the year ended June 30, 2002, an increase of $20.8 million or 32%. As a percentage of net revenue, selling, general and administrative expenses for the year ended June 30, 2003 decreased to 31% compared to 32% for the year ended June 30, 2002. The increase in selling, general and administrative expenses was primarily due to an increase in the number of sales and administrative personnel and other expenses related to the increase in our sales. The increase in selling, general and administrative expenses was also attributable to appreciation of international currencies against the US dollar (adding approximately $6.0 million), the inclusion of $2.6 million from SMI's operations, and $2.2 million in litigation costs associated with outstanding patent infringement lawsuits against competitors.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses increased for the year ended June 30, 2003 to $20.5 million from $14.9 million for the year ended June 30, 2002, an increase of $5.6 million or 38%. As a percentage of net revenue, research and development expenses were 7.5% for the year ended June 30, 2003 compared to 7.3% for the year ended June 30, 2002. The increase in research and development expenses was due to increased salaries associated with an increase in personnel and increased charges for consulting fees, clinical trials and technical assessments incurred to facilitate development of new products. The increase also reflects an appreciation of the Australian dollar against the US dollar, as the majority of research and development costs are incurred in Australian dollars. In constant currency terms, research and development expenses for the year ended June 30, 2003 increased by $3.1 million, or 17%, compared to the year ended June 30, 2002.

OTHER INCOME (EXPENSES), NET. Other income (expenses), net decreased for the year ended June 30, 2003 to net expense of $0.1 million from net income of $3.4 million for the year ended June 30, 2002. The decrease in other income was attributable to lower gains on extinguishment of debt partially offset by increased net foreign currency exchange gains, and lower interest expense due to the reduction in convertible note debt.

INCOME TAXES. Our effective income tax rate increased to 31.9% for the year ended June 30, 2003 from 31.3% for the year ended June 30, 2002. The marginally higher tax rate was primarily due to the geographical mix of taxable income. We continue to benefit from the Australian corporate tax rate of 30%, because we generate a majority of our taxable income in Australia.

BUSINESS ACQUISITIONS

FISCAL YEAR ENDED JUNE 30, 2004

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

FISCAL YEAR ENDED JUNE 30, 2003

JOHN STARK AND ASSOCIATES. On July 24, 2002 we acquired the business of John Stark and Associates, our Texas representative, for total consideration of $300,000 in cash. The acquisition has been accounted for as a purchase and accordingly, the results of operations of John Stark and Associates were included within our Consolidated Financial Statements from July 24, 2002. An amount of $300,000, representing the excess of the purchase price over the fair value of net identifiable assets acquired of $nil, has been recorded as goodwill.

FISCAL YEAR ENDED JUNE 30, 2002

LABHARDT ACQUISITION. On November 15, 2001, we acquired all the common stock of Labhardt AG, our Swiss distributor, for total cash consideration, including acquisition costs, of $5.5 million.

The acquisition has been accounted for as a purchase and accordingly, the results of operations of Labhardt AG have been included in our Consolidated Financial Statements from November 15, 2001. An amount of $4.2 million, representing the excess of the purchase price over the fair value of the net identifiable assets acquired of $1.3 million, has been recorded as goodwill.

SMI ACQUISITION. On May 14, 2002, we acquired all of the common stock of Servo Magnetics Incorporated (SMI) through a merger with our wholly owned subsidiary, Servo Magnetics Acquisitions Inc., for total consideration, including acquisition costs, of $32.6 million. Consideration included the issue of 853,448 shares for fair value of $24.8 million with the balance of the acquisition price paid in cash. Upon consummation of the merger, the surviving corporation, Servo Magnetics Acquisitions Inc., changed its name to Servo Magnetics Inc.

The acquisition has been accounted for as a purchase and accordingly, the results of operations of SMI have been included in our consolidated financial statements from May 14, 2002. An amount of $30.7 million, representing the excess of the purchase price over the fair value of the net identifiable assets acquired of $1.9 million, has been recorded as goodwill.

Purchased in-process research and development of $0.4 million was expensed upon acquisition of SMI because technological feasibility of the products under development had not been established and no further alternative uses existed. The value of in-process technology was calculated by identifying research projects in areas for which technological feasibility had not been established, estimating the costs to develop the purchased in-process technology into commercially viable products, estimating the resulting net cash flows from such products, discounting the net cash flows to present value, and applying the reduced percentage completion of the projects thereto. The discount rate used in the analysis was 19% and was based on the risk profile of the acquired assets.

Purchased research and development projects related to electrical motor systems used in our flow generator devices and other medical and data storage equipment. Key assumptions used in the analysis included gross margins of 34%. The majority of the new motor systems for use in medical applications have been completed and have performed in line with expectations at the time of acquisition.

TAX EXPENSE

Our income tax rate is governed by the laws of the regions in which our income is recognized. To date, a substantial portion of our income has been subject to income tax in Australia where the statutory rate was 30% in fiscal 2004, 2003 and 2002. During fiscal 2004, 2003 and 2002, our effective tax rate has fluctuated between approximately 31% and approximately 33%. These fluctuations have resulted from, and future effective tax rates will depend upon, numerous factors, including the amount of research and development expenditures for which a 125% Australian tax deduction is available, the level of non-deductible expenses, and the use of available net operating loss carryforward deductions and other tax credits or benefits available to us under applicable tax laws.

We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. 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.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2004 and June 30, 2003, we had cash and cash equivalents and marketable securities available-for-sale of $140.9 million and $121.0 million respectively. Working capital was $217.2 million and $191.3 million at June 30, 2004 and June 30, 2003 respectively.

Inventories at June 30, 2004 increased by $6.4 million or 13% to $55.8 million compared to June 30, 2003 inventories of $49.4 million. The percentage increase in inventories was less than the 24% incremental increase in revenues in the year ended June 30, 2004 compared to the year ended June 30, 2003. The lower inventory growth reflects the impact of the relocation of manufacturing to our new facility at Norwest, Sydney in the fourth quarter of fiscal year 2004 which temporarily lowered production volumes and consequently inventory balances at June 30, 2004. Accounts receivable at June 30, 2004 were $67.2 million, an increase of $10.5 million or 19% over the June 30, 2003 accounts receivable balance of $56.7 million. This increase was modestly lower than the 24% incremental increase in revenues for the year ended June 30, 2004 compared to the year ended June 30, 2003. Accounts receivable days outstanding increased to 64 days for the quarter ended June 30, 2004, compared to 62 days for the quarter ended June 30, 2003. The increase reflected, in part, SARS-related sales to China of $5.0 million in the quarter ended June 30, 2003, which were collected prior to June 30, 2003. Our allowance for doubtful accounts as a percentage of total accounts receivable at June 30, 2004 and 2003 was 4.5% and 4.2%, respectively. The credit quality of our customers remains consistent with our past experience.

During the year ended June 30, 2004, we generated cash of $76.5 million from operations, primarily as a result of increased profit and improved working capital management, particularly in respect of inventories and accounts payable. During the year ended June 30, 2003 approximately $59.3 million of cash was generated by operations.

Capital expenditures for the years ended June 30, 2004 and 2003 aggregated $57.2 million and $25.6 million respectively. For the year ended June 30, 2004, $40.9 million of the expenditure related to the construction of our new manufacturing facility. Capital expenditure was also incurred for the acquisition of computer hardware and software and purchase of production tooling and equipment. The capital expenditures in the year ended June 30, 2003 primarily reflected the construction of our new manufacturing facility, acquisition of computer hardware and software including a disaster recovery system, and purchase of production tooling equipment. As a result of these capital expenditures, our balance sheet reflects net property, plant, and equipment of approximately $147.3 million at June 30, 2004 compared to $104.7 million at June 30, 2003.

During the year ended June 30, 2004, we did not repurchase any convertible subordinated notes.

For the year ended June 30, 2003 we repurchased $10.0 million face value of our outstanding convertible subordinated notes. The total purchase price of the notes was $9.4 million, including $0.2 million in accrued interest. We recognized a gain of $0.3 million, net of tax of $0.2 million, on these transactions. At June 30, 2004, we had convertible subordinated notes outstanding of $113.2 million.

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

On April 26, 2002, we settled our purchase of a 30-acre site at Norwest Business Park, located northwest of Sydney, Australia. The acquisition cost was $23.6 million, including deferred payments of $5.7 million paid in October 2002 and $5.7 million paid in April 2003. We completed the first building, a manufacturing facility on this site in May 2004. New research and development and office facilities are expected to be completed in May 2006. We estimate that the additional building costs for the new research and development and office facilities will be approximately $54 million. We expect to fund the project through a combination of cash on hand and cash generated from operations.

On June 6, 2002, the Board of Directors authorized us to repurchase up to 4.0 million shares of our outstanding common stock. For the years ended June 30, 2004 and 2003, we repurchased 471,000 and 125,000 shares at a cost of $19.0 million and $3.5 million respectively. As at June 30, 2004, we have repurchased a total of 886,000 shares at a cost of $30.4 million. We may continue to repurchase shares of our common stock for cash in the open market, or in negotiated or block transactions, from time to time as market and business conditions warrant.

DETAILS OF CONTRACTUAL OBLIGATIONS AT JUNE 30, 2004 ARE AS FOLLOWS:
(In thousands)

	Payments Due by Period				
	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Long-term Debt	$113,250	—	$113,250	—	—
Operating Leases	11,223	4,947	5,178	1,098	
Capital Leases	—	—	—	—	—
Unconditional Purchase Obligations	4,820	4,820	—	—	—
Total Contractual Cash Obligations	**$129,293**	**$9,767**	**$118,428**	**$1,098**	**—**

DETAILS OF OTHER COMMERCIAL COMMITMENTS AT JUNE 30, 2004 ARE AS FOLLOWS:
(In thousands)

	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	Less than 1 year	1–3 years	4–5 years	Over 5 years
Lines of Credit	—	—	—	—	—
Standby Letters of Credit	—	—	—	—	—
Guarantees*	1,761	—	886	349	526
Standby Repurchase Obligations	—	—	—	—	—
Other Commercial Commitments	—	—	—	—	—
Total Commercial Commitments	**$1,761**	**—**	**$886**	**$349**	**$526**

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

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

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

CRITICAL ACCOUNTING PRINCIPLES AND ESTIMATES

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

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

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

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

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

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

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

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

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

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2003, the SEC issued Staff Accounting Bulletin (SAB) No. 104, "Revenue Recognition" which codifies, revises, and rescinds certain sections of SAB No. 101, "Revenue Recognition", in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The changes noted in SAB No. 104 did not have a material effect on our consolidated results of operations, consolidated financial position or consolidated cash flows.

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

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

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

In January 2003, the FASB issued Interpretation No. (FIN) 46, Consolidation of Variable Interest Entities, which addresses the consolidation of certain entities (variable interest entities) in which an enterprise has a controlling financial interest through other than voting interests. FIN 46 requires that a variable interest entity be consolidated by the holder of the majority of the expected risks and rewards associated with the activities of the variable interest entity. FIN 46 was effective for variable interest entities entered into prior to February 1, 2003 in periods beginning after June 15, 2003. The adoption of FIN 46 did not have a material impact on our financial condition or results of operations. In December 2003, the FASB issued a revision to FIN 46, to clarify some requirements and add new scope exceptions. The revised guidance is effective for the first reporting period beginning after December 15, 2003. The adoption of the provisions of FIN 46R did not have a material impact on our financial condition or results of operations.

In November 2002, the Emerging Issues Task Force (EITF) issued EITF Issue No. 00-21 "Accounting for Revenue Arrangements with Multiple Deliverables". EITF Issue No. 00-21 addresses how to determine whether a revenue arrangement involving multiple deliverables contains more than one unit of accounting for the purposes of revenue recognition and how the revenue arrangement consideration should be measured and allocated to the separate units of accounting. EITF Issue No. 00-21 applies to revenue arrangements entered into after June 15, 2003. The adoption of this statement did not have a material impact on our financial condition or results of operations.

Consolidated Financial Statements and supplementary data

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Financial Information (unaudited)—the quarterly results for the years ended June 30, 2004 and 2003 are summarized below (in thousands, except per share amounts):

2004	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FISCAL YEAR
Net revenues	$72,878	$82,292	$91,277	$92,891	$339,338
Gross profit	47,158	52,424	57,550	59,604	216,736
Net income	12,249	14,151	15,029	15,855	57,284
Basic earnings per share	0.36	0.42	0.45	0.47	1.70
Diluted earnings per share	$0.35	$0.40	$0.43	$0.45	$1.63

2003	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FISCAL YEAR
Net revenues	$58,586	$65,293	$68,996	$80,695	$273,570
Gross profit	37,697	41,839	43,187	50,364	173,087
Net income	9,571	10,384	12,250	13,524	45,729
Basic earnings per share	0.29	0.31	0.37	0.41	1.38
Diluted earnings per share	$0.28	$0.30	$0.35	$0.39	$1.33

NB. Per share amounts for each quarter are computed independently, and, due to the computation formula, the sum of the four quarters may not equal the year.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

THE BOARD OF DIRECTORS AND STOCKHOLDERS

RESMED INC.:

We have audited the accompanying consolidated balance sheets of ResMed Inc. and subsidiaries as of June 30, 2004 and 2003, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Public Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ResMed Inc. and subsidiaries as of June 30, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2004, in conformity with US generally accepted accounting principles.

As discussed in Note 8 to the consolidated financial statements, the Company has adopted the provisions of SFAS No. 142 "Accounting for Goodwill and Other Intangible Assets" and changed its method of accounting for goodwill in 2002 accordingly.

KPMG LLP
San Diego, California

August 13, 2004

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2004 AND 2003

(In thousands, except share and per share data)

ASSETS	JUNE 30, 2004	JUNE 30, 2003
Current assets:		
Cash and cash equivalents	$128,907	$114,491
Marketable securities available for sale (note 4)	12,021	6,533
Accounts receivable, net of allowance for doubtful accounts of $3,197 and $2,474 at June 30, 2004 and 2003, respectively	67,242	56,694
Inventories, net (note 5)	55,797	49,386
Deferred income taxes (note 13)	7,041	8,301
Prepaid expenses and other current assets	6,821	6,500
Total current assets	277,829	241,905
Property, plant and equipment, net of accumulated depreciation of $60,330 and $45,379 at June 30, 2004 and 2003 respectively (note 7)	147,268	104,687
Patents, net of accumulated amortization of $4,961 and $3,437 at June 30, 2004 and 2003, respectively	4,814	3,745
Goodwill (note 8)	106,075	102,160
Other assets	8,173	7,098
Total non-current assets	266,330	217,690
Total assets	$544,159	$459,595

JUNE 30, 2004 AND 2003

(In thousands, except share and per share data)

LIABILITIES AND STOCKHOLDERS' EQUITY	JUNE 30, 2004	JUNE 30, 2003
Current liabilities:		
Accounts payable	$18,574	$19,368
Accrued expenses (note 9)	22,591	19,140
Deferred revenue	8,759	6,355
Income taxes payable	8,470	3,408
Current portion of deferred profit on sale-leaseback	2,197	2,312
Total current liabilities	**60,591**	**50,583**
Non-current liabilities:		
Deferred revenue	8,819	7,210
Convertible subordinated notes (note 10)	113,250	113,250
Deferred profit on sale-leaseback	—	2,119
Total non-current liabilities	**122,069**	**122,579**
Total liabilities	**182,660**	**173,162**
Commitments and contingencies (notes 16 and 18)	—	—
Stockholders' equity: (note 11)		
Preferred stock, $.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, $.004 par value, 100,000,000 shares authorized;		
Issued and outstanding 33,858,272 at June 30, 2004 and 33,370,885 at June 30, 2003 (excluding 886,369 and 415,365 shares held as Treasury Stock respectively)	135	134
Additional paid-in capital	132,875	107,432
Retained earnings	217,656	160,372
Treasury stock	(30,440)	(11,415)
Accumulated other comprehensive income	41,273	29,910
Total stockholders' equity	**361,499**	**286,433**
Total liabilities and stockholders' equity	**$544,159**	**$459,595**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED JUNE 30, 2004, 2003 AND 2002

(In thousands, except share and per share data)

	JUNE 30, 2004	JUNE 30, 2003	JUNE 30, 2002
Net revenues	$339,338	$273,570	$204,076
Cost of sales	122,602	100,483	70,827
Gross profit	**216,736**	**173,087**	**133,249**
Operating expenses:			
Selling, general, and administrative	104,706	85,313	64,481
Research and development	26,169	20,534	14,910
Donations to Research Foundations	500	—	2,349
In-process research and development write-off (note 19)	—	—	350
Total operating expenses	**131,375**	**105,847**	**82,090**
Income from operations	**85,361**	**67,240**	**51,159**
Other income (expenses):			
Gain on extinguishment of debt	—	529	6,549
Interest income (expense), net	(1,683)	(2,549)	(3,224)
Other, net (note 12)	990	1,907	108
Total other income (expenses), net	**(693)**	**(113)**	**3,433**
Income before income taxes	84,668	67,127	54,592
Income taxes (note 13)	27,384	21,398	17,086
Net income	**$57,284**	**$45,729**	**$37,506**
Basic earnings per share	$1.70	$1.38	$1.17
Diluted earnings per share	$1.63	$1.33	$1.10
Basic shares outstanding	33,694	33,054	32,174
Diluted shares outstanding	35,125	34,439	34,080

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED JUNE 30, 2004, 2003 AND 2002

(In thousands)

	Common Stock		Additional Paid-in Capital	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total	Comprehensive Income
	Shares	Amount		Shares	Amount				
BALANCE, JUNE 30, 2001	31,479	$126	$52,675	—	—	$77,137	($29,572)	$100,366	
Common stock issued on exercise of options (note 11)	776	3	9,778	—	—	—	—	9,781	
Common stock issued for acquisitions	853	3	24,781	—			—	24,784	
Treasury stock purchases				(290)	(7,873)		—	(7,873)	
Tax benefit from exercise of options	—	—	6,919	—	—	—	—	6,919	
Comprehensive income:									
Net income						37,506	—	37,506	37,506
Other comprehensive income									
Foreign currency translation adjustments							21,342	21,342	21,342
Unrealized gains on marketable securities							105	105	105
Comprehensive income/(loss)									**58,953**
BALANCE, JUNE 30, 2002	33,108	132	94,153	(290)	(7,873)	114,643	(8,125)	192,930	
Common stock issued on exercise of options (note 11)	678	2	9,029					9,031	
Treasury stock purchases				(125)	(3,542)			(3,542)	
Tax benefit from exercise of options			4,250					4,250	
Comprehensive income:									
Net income						45,729		45,729	45,729
Other comprehensive income									
Foreign currency translation adjustments							38,131	38,131	38,131
Unrealized losses on marketable securities							(96)	(96)	(96)
Comprehensive income/(loss)									**83,764**
BALANCE, JUNE 30, 2003	33,786	134	107,432	(415)	(11,415)	160,372	29,910	286,433	
Common stock issued on exercise of options (note 11)	958	3	20,338					20,341	
Treasury stock purchases		(2)		(471)	(19,025)			(19,027)	
Tax benefit from exercise of options			5,105					5,105	
Comprehensive income:									
Net income						57,284		57,284	57,284
Other comprehensive income									
Foreign currency translation adjustments							11,366	11,366	11,366
Unrealized losses on marketable securities							(3)	(3)	(3)
Comprehensive income/(loss)									**68,647**
Balance, June 30, 2004	**34,744**	**$135**	**$132,875**	**(886)**	**($30,440)**	**$217,656**	**$41,273**	**$361,499**	

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2004, 2003 AND 2002

(In thousands)

	JUNE 30, 2004	JUNE 30, 2003	JUNE 30, 2002
Cash flows from operating activities:			
Net income	$57,284	$45,729	$37,506
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	17,867	12,583	9,972
Provision for service warranties	213	332	(85)
Deferred income taxes	1,259	2,002	(6,153)
Foreign currency options revaluation	982	(2,117)	767
Deferred borrowing costs	804	834	1,254
Tax benefit from stock options exercised	5,105	4,250	6,919
Gain on extinguishment of debt	—	(529)	(6,549)
Release of profit on sale of building	(2,440)	(2,012)	—
Other, net	—	—	(162)
Purchased in-process research and development write-off	—	—	350
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable, net	(13,129)	(6,102)	(9,765)
Inventories, net	(6,722)	(2,988)	(7,063)
Prepaid expenses and other current assets	15	(2,333)	4,785
Accounts payable, accrued expenses and other liabilities	15,303	9,635	3,864
Net cash provided by operating activities	**76,541**	**59,284**	**35,640**
Cash flows from investing activities:			
Purchases of property, plant and equipment	(57,246)	(25,635)	(28,185)
Purchases of marketable securities—available-for-sale	(78,890)	(13,544)	(393,072)
Proceeds from sale of marketable securities—available-for-sale	73,376	26,845	435,871
Patent registration costs	(2,358)	(1,560)	(1,720)
Business acquisitions, net of cash acquired	(184)	(300)	(13,871)
Purchases of non-trading investments	(1,535)	(1,625)	(3,987)
Proceeds from sale of non-trading investments	—	3,936	—
Proceeds from sale-leaseback	—	—	18,500
Net cash provided by (used in) investing activities	**($66,837)**	**($11,883)**	**$13,536**

YEARS ENDED JUNE 30, 2004, 2003 AND 2002

(In thousands)

	JUNE 30, 2004	JUNE 30, 2003	JUNE 30, 2002
Cash flows from financing activities:			
Proceeds from issuance of common stock, net	$20,341	$9,031	$9,781
Repayment of borrowings	—	—	(3,022)
Proceeds from borrowings, net of borrowing costs	—	—	28,402
Redemption of borrowings, convertible note	—	(9,217)	(48,454)
Purchases of treasury stock	(19,027)	(3,542)	(7,873)
Installment payment for property purchase	—	(12,609)	—
Net cash provided by (used in) financing activities	**1,314**	**(16,337)**	**(21,166)**
Effect of exchange rate changes on cash	**3,398**	**10,567**	**4,714**
Net increase in cash and cash equivalents	14,416	41,631	32,724
Cash and cash equivalents at beginning of the year	114,491	72,860	40,136
Cash and cash equivalents at end of the year	**$128,907**	**$114,491**	**$72,860**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Income taxes paid	15,141	21,308	18,328
Interest paid	4,530	4,530	6,557
Fair value of assets acquired in acquisitions	95	—	9,060
Liabilities assumed	—	—	(5,872)
Goodwill on acquisition	89	300	36,279
Fair value of shares issued for acquisitions	—	—	(24,784)
Cash paid for acquisition, including acquisition costs	**$184**	**$300**	**$14,683**

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2004 AND 2003

(1) ORGANIZATION AND BASIS OF PRESENTATION

ResMed Inc. ("the Company") is a Delaware corporation formed in March 1994 as a holding company for the ResMed Group. Through our subsidiaries, we design, manufacture, and market devices for the evaluation and treatment of SDB, primarily obstructive sleep apnea. Our manufacturing operations are located in Australia, Germany, and the United States of America. Major distribution and sales sites are located in the United States of America, Germany, France, United Kingdom, Switzerland, Australia, and Sweden.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

We do not offer a right of return or other recourse with respect to the sale of our products, other than returns for product defects or other warranty claims, nor do we offer variable sale prices for subsequent events or activities. However, as part of our sales processes we may provide upfront discounts for large orders, one time special pricing to support new product introductions, sales rebates for centralized purchasing entities, or price-breaks for regular order volumes. The costs of all such programs are recorded as an adjustment to revenue. In our US 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 US 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 including certificates of deposit, commercial paper, and other highly liquid investments are stated at cost, which approximates market. Investments with original maturities of 90 days or less are considered to be cash equivalents for purposes of the consolidated statements of cash flows.

(d) Inventories
Inventories are stated at the lower of cost, determined principally by the first-in, first-out method, or net realizable value. We review and provide for any product obsolescence in our manufacturing and distribution operations with assessments of individual products and components (based on estimated future usage and sales) being performed throughout the year.

(e) Property, Plant, and Equipment
Property, plant and equipment, including rental equipment, is recorded at cost. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets, generally two to ten years except for buildings which are depreciated over an estimated useful life of 40 years. Straight-line and accelerated methods of depreciation are used for tax purposes. Maintenance and repairs are charged to expense as incurred.

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

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

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

We conducted our annual review for goodwill impairment in July 2004. In conducting our review of goodwill impairment, we identified reporting units, being components of our operating segment, as each of the entities acquired and giving rise to the goodwill. The fair value for each reporting unit was determined based on discounted cash flows and involved a two step process as follows:

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

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

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

(h) Foreign Currency
The consolidated financial statements of our non-US subsidiaries, whose functional currencies are other than US dollars, are translated into US dollars for financial reporting purposes. Assets and liabilities of non-US subsidiaries whose functional currencies are other than the US 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 6, 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
Research and development costs are expensed in the period incurred.

(j) Earnings Per Share
The weighted average shares used to calculate basic earnings per share were 33,694,000, 33,054,000, and 32,174,000 for the years ended June 30, 2004, 2003 and 2002, respectively. The difference between basic earnings per share and diluted earnings per share is attributable to the impact of outstanding stock options during the periods presented. Stock options had the effect of increasing the number of shares used in the calculation (by application of the treasury stock method) by 1,431,000, 1,385,000 and 1,906,000 for the years ended June 30, 2004, 2003 and 2002, respectively.

Stock options of 751,000, 1,408,000 and 726,000 for the years ended June 30, 2004, 2003 and 2002 respectively, were not included in the computation of diluted earnings per share as the effect of exercising these options would have been anti-dilutive.

(k) Financial Instruments
The carrying value of financial instruments, such as cash and cash equivalents, marketable securities available-for-sale, accounts receivable and accounts payable approximate their fair value because of their short-term nature. The estimated fair value of the Company's long-term debt at June 30, 2004 approximates $119.9 million compared with the carrying value of $113.3 million. Foreign currency option contracts are marked to market and therefore reflect their fair value. We do not hold or issue financial instruments for trading purposes.

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

(l) Foreign Exchange Risk Management
We enter into various types of foreign exchange contracts in managing our foreign exchange risk, including derivative financial instruments encompassing forward exchange contracts and foreign currency options.

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

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

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

We are exposed to credit-related losses in the event of non-performance by counter parties to financial instruments. The credit exposure of foreign exchange options at June 30, 2004 and June 30, 2003 was $2.0 million and $2.6 million respectively, which represents the positive fair value of options held by us.

We held foreign currency option contracts with notional amounts totaling $140.6 million and $124.5 million at June 30, 2004 and 2003, respectively to hedge foreign currency items. These contracts mature at various dates prior to July 2006.

(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 June 30, 2004 and 2003, the investments in debt securities were classified on the accompanying consolidated balance sheet as marketable securities—available-for-sale. These investments are diversified among high credit quality securities in accordance with our investment policy.

AS AT JUNE 30, 2004 AND 2003, contractual maturities of marketable securities—available-for-sale were (in thousands):

	2004	2003
Due less than one year	$11,025	$6,533
Due one to less than three years	—	—
Due more than three years	996	—
Total	**$12,021**	**$6,533**

(o) Warranty
Estimated future warranty costs related to certain products are charged to operations in the period in which the related revenue is recognized.

(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 recovered. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(q) Cost-Method Investments
The aggregate carrying amount of our cost-method investments at June 30, 2004 was $5.3 million. At June 30, 2004, we reviewed the carrying value of these investments and determined that the fair value of the investments exceeded the carrying values and no unrealised losses existed.

(r) Capitalized Software Production Costs
Software development costs have been capitalized and are being amortized to the cost of product revenues over the estimated economic lives (generally three to five years) of the products that include such software. Total net capitalized software production costs were $1.2 million and $1.6 million at June 30, 2004 and 2003 respectively.

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

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

STOCK-BASED EMPLOYEE COMPENSATION

YEARS ENDED JUNE 30

	2004	2003	2002
Net income, as reported	$57,284	$45,729	$37,506
Deduct: Total stock-based employee compensation expense determined under fair-value based method for all awards, net of related tax effects.	9,394	14,102	18,975
Pro forma net income	47,890	31,627	18,531
Earnings per share:			
Basic—as reported	1.70	1.38	1.17
Basic—pro forma	1.42	0.96	0.58
Diluted—as reported	1.63	1.33	1.10
Diluted—pro forma	$1.36	$0.92	$0.54

The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: weighted average risk-free interest rates of 2.9%, 2.8% and 4.8% for the years ended June 30, 2004, 2003 and 2002 respectively; no dividend yield; expected option lives of 3.7 and 3.3 and 5.5 years for the years ended June 30, 2004, 2003 and 2002 respectively, and volatility of 43%, 63% and 60% for the years ended June 30, 2004, 2003 and 2002 respectively.

The following table illustrates the fair value of compensation costs as determined under the provisions of SFAS 123 by year of option grant (in thousands, except per share data):

FISCAL YEAR OF GRANT

	JUNE 30				
	2004	2003	2002	Average Exercise Price	Fair Value at Date of Grant
1999	—	—	$5	$11.93	$5.27
2000	—	55	971	14.14	6.56
2001	348	2,664	7,142	27.71	13.41
2002	3,658	9,942	21,074	50.18	26.21
2003	4,466	9,035	—	26.54	12.22
2004	4,223	—	—	40.60	14.89
Compensation Cost	12,695	21,696	29,192		
Tax Effected	$9,394	$14,102	$18,975		

(3) NEW ACCOUNTING PRONOUNCEMENTS

In December 2003, the SEC issued Staff Accounting Bulletin (SAB) No. 104, "Revenue Recognition" (SAB No. 104), which codifies, revises and rescinds certain sections of SAB No. 101, "Revenue Recognition", in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The changes noted in SAB No. 104 did not have a material effect on our consolidated results of operations, consolidated financial position or consolidated cash flows.

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

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

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, which addresses the consolidation of certain entities (variable interest entities) in which an enterprise has a controlling financial interest through other than voting interests. FIN No. 46 requires that a variable interest entity be consolidated by the holder of the majority of the expected risks and rewards associated with the activities of the variable interest entity. FIN 46 was effective for VIEs entered into prior to February 1, 2003 in periods beginning after June 15, 2003. The adoption of FIN 46 did not have a material impact on our financial condition or results of operation. In December 2003, the FASB issued a revision to FIN 46, to clarify some requirements and add new scope exceptions. The revised guidance is effective for the first reporting period beginning after December 15, 2003. The adoption of the provisions of FIN 46R is not expected to have a material impact on our financial condition or results of operations.

In November 2002, the Emerging Issues Task Force (EITF) issued EITF Issue No. 00-21 "Accounting for Revenue Arrangements with Multiple Deliverables". EITF Issue No. 00-21 addresses how to determine whether a revenue arrangement involving multiple deliverables contains more than one unit of accounting for the purposes of revenue recognition and how the revenue arrangement consideration should be measured and allocated to the separate units of accounting. EITF Issue No. 00-21 applies to revenue arrangements entered into after June 15, 2003. The adoption of this statement did not have a material impact on our financial condition or results of operations.

(4) MARKETABLE SECURITIES

The estimated fair value of marketable securities available-for-sale as of June 30, 2004 and 2003, was $12.0 million and $6.5 million respectively.

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

(5) INVENTORIES

Inventories, net were comprised of the following:

AS OF JUNE 30, 2004 AND 2003
(in thousands):

	2004	2003
Raw materials	$15,277	$13,712
Work in progress	2,254	2,288
Finished goods	38,266	33,386
	$55,797	**$49,386**

(6) COMPREHENSIVE INCOME

The table below presents other comprehensive income (in thousands):

	Foreign Currency Items	Unrealized Gains on Securities	Accumulated Other Comprehensive Income	Retained Earnings	Accumulated Comprehensive Income
Beginning balance, July 1, 2003	$29,901	$9	$29,910	$160,372	$190,282
Current period change	11,366	(3)	11,363	57,284	68,647
Ending balance, June 30, 2004	**$41,267**	**$6**	**$41,273**	**$217,656**	**$258,929**

The Company does not provide for US income taxes on foreign currency translation adjustments since it does not provide for such taxes on undistributed earnings of foreign subsidiaries. Accumulated other comprehensive income at June 30, 2004 and June 30, 2003 consisted of foreign currency translation adjustments with net credit balances of $41.3 million and $29.9 million, respectively and unrealized gains on securities with net credit balance of $6,000 (net of tax $2,000) and $9,000 (net of tax $6,000), respectively.

(7) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is comprised of the following as of June 30, 2004 and 2003 (in thousands):

	2004	2003
Machinery and equipment	$33,605	$25,278
Computer equipment	33,542	28,487
Furniture and fixtures	13,613	11,528
Vehicles	2,015	1,749
Clinical, demonstration, and rental equipment	21,763	18,056
Leasehold improvements	1,346	1,213
Land	32,990	31,913
Buildings	68,249	19,231
Construction in progress	475	12,611
	207,598	150,066
Accumulated depreciation and amortization	(60,330)	(45,379)
	$147,268	**$104,687**

(8) GOODWILL AND OTHER INTANGIBLE ASSETS

The Company adopted SFAS 142 on July 1, 2001. Under SFAS 142, goodwill amortization expense has not been recorded for the years ended June 30, 2004, 2003, and 2002.

Changes in the carrying amount of goodwill for the year ended June 30, 2004, were as follows:
(in thousands):

	2004
Balance at June 30, 2003	$102,160
Foreign currency translation adjustments	3,826
Goodwill on acquisition of the assets of Respro Medical Company Limited (our Hong Kong distributor)	89
Balance at June 30, 2004	**$106,075**

Other intangible assets amounted to $4.8 million (net of accumulated amortization of $5.0 million) and $3.7 million (net of accumulated amortization of $3.4 million) at June 30, 2004 and 2003, respectively. These intangible assets consist of patents and are amortized over the estimated useful life of the patent, generally five years. There are no expected residual values related to these intangible assets.

(9) ACCRUED EXPENSES AT JUNE 30, 2004 AND 2003 CONSIST OF THE FOLLOWING :
(in thousands):

	2004	2003
Service warranties	$1,557	$1,304
Consulting and professional fees	1,275	2,001
Value added taxes and other taxes due	1,877	1,173
Employee related costs	14,349	9,849
Research foundation grants	—	899
Convertible note interest	126	126
Promotional programs	1,157	1,426
Other	2,250	2,362
	$22,591	**$19,140**

(10) LONG-TERM DEBT

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

During the year ended June 30, 2004, we did not repurchase any of our convertible subordinated notes.

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

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

As at June 30, 2004, we had convertible subordinated notes outstanding of $113.3 million.

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

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

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

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

(11) STOCKHOLDERS' EQUITY

Stock Options. The Company has 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. The Company granted these options with the exercise price equal to the market value as determined at the date of grant.

The following table summarizes option activity:

	2004	Weighted Average Exercise Price	2003	Weighted Average Exercise Price	2002	Weighted Average Exercise Price
Outstanding at beginning of year	4,745,178	$29.04	4,200,998	$27.94	3,852,818	$17.14
Granted	910,237	41.32	1,470,675	126.54	1,328,600	50.18
Exercised	(958,391)	21.23	(678,400)	13.31	(775,803)	12.61
Forfeited	(280,668)	40.56	(248,095)	38.85	(204,617)	26.75
Outstanding at end of year	**4,416,356**	**32.53**	**4,745,178**	**29.04**	**4,200,998**	**27.94**
Price range of granted options	$39.19–51.56		$25.42–37.40		$33.15–52.20	
Options exercisable at end of year	2,406,581	$28.70	2,192,309	$23.32	1,631,044	$13.76

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 1,000,000 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, however, cannot exceed 8,000,000. 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 300,000.

The following table summarizes information about stock options outstanding at June 30, 2004.

Exercise Prices	Number Outstanding at June 30, 2004	Weighted Average Remaining Contractual Life	Number Exercisable at June 30, 2004
$ 0–10	234,125	2.66	234,125
$11–20	482,293	4.72	482,293
$21–30	1,449,802	7.48	795,539
$31–40	452,652	7.87	256,126
$41–50	853,837	9.46	16,733
$51–60	943,647	7.12	621,765
	4,416,356	**7.27**	**2,406,581**

The following table summarizes in-the-money and out-of-the-money options as at June 30, 2004.

	Exercisable		Unexercisable		Total	
	Shares	Wtd. Avg. Exer. Price	Shares	Wtd. Avg. Exer. Price	Shares	Wtd. Avg. Exer. Price
In-the-Money	2,353,914	$28.17	1,983,442	$36.58	4,337,356	$32.03
Out-of-the-Money[1]	52,667	52.20	26,333	52.20	79,000	52.20
Total Options Outstanding	2,406,581	$28.70	2,009,775	$36.79	4,416,356	$32.38

(1) Out-of-the-money options are those options with an exercise price equal to or above the closing sales price of the Company's common stock on the New York Stock Exchange on June 30, 2004 ($50.96 per share).

The following table summarizes outstanding stock option plan balances as at June 30, 2004.

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
1997 Equity participation plan approved by security holders	4,416,356	$32.38	30,265[1]
Employee stock purchase plan approved by security holders	—	—	3,250,000
Equity compensation plans not approved by security holders	—	—	—
Total	**4,416,356**	**$32.38**	**3,280,265**

(1) The total number of authorized shares of common stock under the 1997 Equity Participation Plan increases at the beginning of each fiscal year by an amount equal to 4% of the outstanding common stock on the last day of the preceding fiscal year.

STOCK OPTIONS BY RECIPIENT

The following table summarizes stock option grants by recipient, with executive officers (as defined in Exchange Act Rule 3b-7) separately disclosed. As at June 30, 2004, the Company had seven executive officers.

	JUNE 30		
	2004	2003	2002
Non-Executive Directors	60,000	60,000	73,000
Executive Officers	91,000	278,500	167,000
Staff	759,237	1,132,175	1,088,600
Gross Options Issued	**910,237**	**1,470,675**	**1,328,600**
Employees	1,520	1,464	1,250
Average Options per Employee	**599**	**1,005**	**1,063**

The following table discloses employee and executive option grants as a percentage of total options.

	2004	2003	2002
Net grants during the period as % of outstanding shares (%)	3	4	4
Grants to executive officers during the period as % of total options granted (%)	10	19	13
Grants to executive officers during the period as % of outstanding shares (%)	—	1	1
Cumulative options held by executive officers as % of total options outstanding (%)	13	16	16

Options granted to executive officers during the fiscal year ended June 30, 2004 are as noted below.

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term[1][2]	
	Number of Securities Underlying Options Per Grant	Percent of Total Options Granted to Employees (%)	Exercise Price ($/Share)	Expiration Date	5%	10%
Peter Farrell	60,000	7.1%	$41.49	Dec18, 2013	$1,372,476	$3,380,475
Paul Eisen	15,000	1.8%	41.49	Dec18, 2013	343,119	845,119
David Pendarvis	6,000	0.7%	41.49	Dec18, 2013	137,248	338,047
Adrian Smith	10,000	1.2%	41.49	Dec18, 2013	228,746	563,412
Total	**91,000**	**10.8%**				

[1] Represents options granted under our 1997 Equity Participation Plan, which typically are exercisable starting 12 months after the grant date, with 33% of the shares covered thereby becoming exercisable at that time and an additional 33% of the option shares becoming exercisable on each successive anniversary date, with all option shares exercisable beginning on either the third or fourth anniversary date. Under the terms of the 1997 Plan, this exercise schedule may be accelerated in certain specific situations. In addition, we have the right to require the surrender of outstanding options upon the grant of lower priced options to the same individual.

[2] Assumed annual rates of stock appreciation for illustrative purposes only. Actual stock prices will vary from time to time based upon market factors and our financial performance. No assurance can be given that such rates will be achieved.

The following table summarizes option exercises and remaining holdings of executive officers during the year ended June 30, 2004.

			No. of Securities Underlying All Unexercised Options		Value of Unexercised In-the Money Options[1]	
	Shares Acquired on Exercise	Value Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
Peter Farrell	74,374	$1,848,622	180,593	126,667	$4,560,328	$1,600,733
Kieran Gallahue	—	0	16,666	133,334	$316,487	$2,532,013
David Pendarvis	—	0	10,000	26,000	$184,450	$425,720
Paul Eisen	—	0	2,000	19,000	$51,080	$244,210
Adrian Smith	19,000	$796,362	53,333	21,667	$1,512,250	$267,025

[1] Represents the amount by which the closing sales price of our common stock on the New York Stock Exchange on June 30, 2004 ($50.96 per share) multiplied by the number of shares to which the options apply exceeded the aggregate exercise price of such options.

EMPLOYEE STOCK PURCHASE PLAN (ESPP). The ESPP was approved by our shareholders 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 common stock during any calendar year. There is a maximum of 3,250,000 shares of our common stock authorized for sale under the ESPP.

PREFERRED STOCK. In April 1997, the Board of Directors authorized 2,000,000 shares of $0.01 par value preferred stock. No such shares were issued or outstanding at June 30, 2004.

STOCK PURCHASE RIGHTS. In April 1997, the Company implemented a plan to protect stockholders' rights in the event of a proposed takeover of the Company. Under the plan, each share of the Company's outstanding common stock carries one right to purchase Series A Junior Participating Preferred Stock (the "Right"). The Right enables the holder, under certain circumstances, to purchase common stock of the Company or of the acquiring person or group at a substantially discounted price ten days after a person or group publicly announces it has acquired or has tendered an offer for 20% or more of the Company's outstanding common stock. The Rights are redeemable at $0.01 per Right and expire in 2007.

COMMON STOCK. On June 6, 2002, the Board of Directors authorized the Company to repurchase up to 4.0 million shares of outstanding common stock. During fiscal year 2004 and 2003, the Company repurchased 471,000 and 125,000 shares at a cost of $19.0 million and $3.5 million respectively. Shares that are repurchased are classified as treasury stock pending future use and reduce the number of shares outstanding used in calculating earnings per share.

(12) OTHER, NET

Other, net is comprised of the following
AT JUNE 30, 2004, 2003 AND 2002 (in thousands):

	2004	2003	2002
Gain/(loss) on foreign currency hedging position	$(982)	$2,117	$(767)
Gain/(loss) on foreign currency transactions	1,637	(562)	182
Realized gain (loss) on sale of marketable securities	(11)	115	301
Other	346	237	392
	$990	**$1,907**	**$108**

(13) INCOME TAXES

Income before income taxes for the
YEARS ENDED JUNE 30, 2004, 2003, AND 2002 taxed under the following jurisdictions (in thousands):

	2004	2003	2002
US	$1,290	$3,061	$418
Non-US	83,378	64,066	54,174
	$84,668	**$67,127**	**$54,592**

The provision for income taxes is presented below (in thousands):

	2004	2003	2002
Current:			
Federal	$3,567	$1,303	$4,962
State	372	14	752
Non-US	22,186	18,079	17,525
	26,125	**19,396**	**23,239**
Deferred:			
Federal	1,293	892	(3,494)
State	(84)	325	(568)
Non-US	50	785	(2,091)
	1,259	**2,002**	**(6,153)**
Provision for income taxes	**$27,384**	**$21,398**	**$17,086**

The provision for income taxes differs from the amount of income tax determined by applying the applicable US federal income tax rate of 35% to pretax income as a result of the following (in thousands):

	2004	2003	2002
Taxes computed at statutory US rate	$28,787	$23,495	$19,108
INCREASE (DECREASE) IN INCOME TAXES RESULTING FROM:			
State income taxes, net of US tax benefit	254	274	363
Non-deductible expenses	312	243	116
Research and development credit	(2,582)	(1,690)	(888)
Tax effect of intercompany dividends	129	—	2,577
Write-off of net operating losses due to business cessation	—	—	1,046
Change in valuation allowance	5,074	457	(2,614)
Effect of non-US tax rates	(2,930)	(2,498)	(3,379)
In-process research and development write-off	—	—	123
Foreign tax credits	(772)	—	—
Other	(888)	1,117	634
	$27,384	$21,398	$17,086

The components of the Company's deferred tax assets and liabilities **AT JUNE 30, 2004 AND 2003** (in thousands) are as follows:

	2004	2003
Deferred tax assets:		
Employee benefit obligations	$1,732	$1,208
Inventory	735	1,068
Provision for service warranties	419	343
Provision for doubtful debts	867	768
Net operating loss carryforwards	723	1,277
Foreign tax credits	8,836	7,288
AMT tax credit	634	1,667
Accrual for legal costs	64	307
Intercompany profit in inventories	8,958	6,013
Capitalized software	308	472
Deferred gain on sale-leaseback	659	1,329
Other	1,821	2,112
	25,756	23,852
Less valuation allowance	(8,459)	(3,385)
Deferred tax assets	$17,297	$20,467

The components of the Company's deferred tax assets and liabilities **AT JUNE 30, 2004 AND 2003** (in thousands) are as follows:

	2004	2003
Deferred tax liabilities:		
Patents	(91)	(93)
Unrealized gain on foreign currency options	(599)	(773)
Unrealized foreign exchange gains	(1,472)	(1,678)
Property, plant and equipment	(2,885)	(2,244)
Undistributed German income	—	(3,448)
Deferred tax deductible goodwill amortization	(4,780)	(3,634)
Other	(429)	(296)
Deferred tax liabilities	**(10,256)**	**(12,166)**
Net deferred tax asset	**$7,041**	**$8,301**

As of June 30, 2004, the Company had $2,669,000 and $1,771,000 of US state and non-US net operating loss carryforwards, respectively, which expire in various years through 2024 or carryforward indefinitely. The Company also had foreign tax credit carryforwards of $8,836,000 and alternative minimum tax credit carryforwards of $634,000. The foreign tax credit carryforwards have expiration dates through 2009.

The valuation allowance at June 30, 2004, primarily relates to a provision for uncertainty as to the utilization of foreign tax credits of $8,033,000 and net operating loss carryforwards of $426,000 for Malaysia and Austria.

The Company has not provided US income taxes on undistributed earnings of certain of its non-US subsidiaries. The total amount of these undistributed earnings at June 30, 2004 amounted to approximately $150,829,000.

(14) EMPLOYEE RETIREMENT PLANS

The Company contributes to a number of employee retirement plans for the benefit of its employees. These plans are detailed as follows:

(1) Australia
The Company contributes to defined contribution pension plans for each employee resident in Australia. All Australian employees after serving a qualifying period, are entitled to benefits on retirement, disability or death. Employees may contribute additional funds to the plans. From July 1, 2002 the Company contributes to the plans at the rate of 9% of the salaries of all Australian employees. Prior to July 2002, the Company contributed 8% for all qualified employees. Total Company contributions to the plans for the years ended June 30, 2004, 2003, and 2002 were $2,410,000, $1,663,391, and $968,000, respectively.

(2) United Kingdom
The Company contributes to a defined contribution plan for each permanent United Kingdom employee. All employees, after serving a three-month qualifying period, are entitled to benefit on retirement, disability or death. Employees may contribute additional funds to the plan. The Company contributes to the plans at the rate of 5% of the salaries. Prior to January 2002, the Company contributed 3% for all qualified employees. Total Company contributions to the plan were $33,000, $23,000, and $16,000 in fiscal 2004, 2003, and 2002 respectively.

(3) United States
The Company sponsors a defined contribution pension plan available to substantially all domestic employees. Company contributions to this plan are based on a percentage of employee contributions to a maximum of 3% of employee salaries. The cost of this plan to the Company was $362,000, $326,000, and $245,000 in fiscal 2004, 2003, and 2002 respectively.

(4) Switzerland
The Company sponsors a fixed return defined contribution fund for each permanent Swiss employee. As part of the Company's contribution to the fund the company guarantees a fixed 3% net return on accumulated contributions per annum. The Company contributes to the plans at variable rates which have averaged 10% of salaries over the last three years. Total Company contributions to the plan were $139,000, $133,000, and $94,000 in fiscal 2004, 2003, and 2002 respectively.

(15) SEGMENT INFORMATION

The Company operates solely in the SDB sector of the respiratory medicine industry. The Company therefore believes that, given the single market focus of its operations and the interdependence of its products, the Company operates as a single operating segment. The Company assesses performance and allocates resources on the basis of a single operating entity.

Financial information by geographic area for the **YEARS ENDED JUNE 30, 2004, 2003, AND 2002**, is summarized below (in US$ thousands):

	USA	Germany	Australia	France	Rest of World	Total
2004						
Revenue from external customers	$159,283	$67,253	$10,293	$34,629	$67,880	**$339,338**
Long lived assets	33,010	6,842	108,683	1,075	5,831	**155,441**
2003						
Revenue from external customers	124,375	51,992	6,972	27,745	62,486	**273,570**
Long lived assets	34,340	5,765	68,300	1,030	2,350	**111,785**
2002						
Revenue from external customers	95,463	35,386	5,569	20,957	46,701	**204,076**
Long lived assets	$34,127	$3,738	$46,370	$599	$2,455	**$87,289**

Net revenues from external customers is based on the location of the customer. Long-lived assets of geographic areas are those assets used in the Company's operations in each geographical area and excludes patents, deferred tax assets, and goodwill.

(16) COMMITMENTS

The Company leases buildings, motor vehicles and office equipment under operating leases. Rental charges for these items are expensed as incurred. At June 30, 2004 the Company had the following future minimum lease payments under non-cancelable operating leases (in thousands):

Years	Operating Leases	Sub lease rental income	Total net minimum lease payments
2005	$4,947	$387	$4,560
2006	3,767	72	3,695
2007	1,411	—	1,411
2008	909	—	909
2009	189	—	189
Thereafter	—	—	—
Total minimum lease payments	**$11,223**	**$459**	**$10,764**

Rent expenses under operating leases for the years ended June 30, 2004, 2003 and 2002 were approximately $5.5 million, $3.8 million, and $2.3 million, respectively.

(17) BUSINESS ACQUISITIONS

FISCAL YEAR ENDED JUNE 30, 2004

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

FISCAL YEAR ENDED JUNE 30, 2003

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

FISCAL YEAR ENDED JUNE 30, 2002

SERVO MAGNETICS, INC. (SMI). On May 14, 2002, the Company acquired all of the common stock of Servo Magnetics Incorporated through a merger with our wholly-owned subsidiary, Servo Magnetics Acquisition Inc., for total consideration, including acquisition costs, of $32.6 million. Consideration included the issue of 853,448 shares for fair value of $24.8 million with the balance of the acquisition cost paid in cash. Upon consummation of the merger, the surviving corporation, Servo Magnetics Acquisition Inc., changed its name to Servo Magnetics, Inc.

The acquisition has been accounted for as a purchase and accordingly, the results of operations of SMI have been included in the Company's consolidated financial statements from May 14, 2002. An amount of $30.7 million, representing the excess of the purchase price over the fair value of the net identifiable assets acquired of $1.9 million, has been recorded as goodwill.

Purchased in-process research and development of $0.4 million was expensed upon acquisition of SMI because technological feasibility of the products under development had not been established and no further alternative uses existed. The value of in-process technology was calculated by identifying research projects in areas for which technological feasibility had not been established, estimating the costs to develop the purchased in-process technology into commercially viable products, estimating the resulting net cash flows from such products, discounting the net cash flows to present value, and applying the reduced percentage completion of the projects thereto. The discount rates used in the analysis were 19% and were based on the risk profile of the acquired assets.

The acquisition has been accounted for as a purchase and accordingly, the results of operations of SMI have been included in our consolidated financial statements from May 14, 2002. An amount of $30.7 million, representing the excess of the purchase price over the fair value of the net identifiable assets acquired of $1.9 million, has been recorded as goodwill.

LABHARDT AG. On November 15, 2001, the Company's wholly owned subsidiary ResMed International Inc. acquired all the Common Stock of Labhardt AG, its Swiss distributor for total cash consideration including acquisition costs of $5.5 million.

The acquisition has been accounted for as a purchase and accordingly, the results of operations of Labhardt AG have been included in the Company's consolidated financial statements from November 15, 2001. An amount of $4.2 million, representing the excess of the purchase price over the fair value of the net identifiable assets acquired of $1.3 million, has been recorded as goodwill.

Pro-forma financial information related to SMI and Labhardt AG are not included as the effects would not be significant to the consolidated financial statements.

(18) LEGAL ACTIONS

We were engaged in litigation relating to the enforcement and defense of certain of our patents during the year ended June 30, 2004.

1995 LITIGATION WITH RESPIRONICS. In January 1995, our subsidiary, ResMed Limited, filed a complaint in the United States District Court for the Southern District of California seeking monetary damages from and injunctive relief against Respironics Inc. for alleged infringement of three of its patents. In February 1995, Respironics Inc. filed a complaint in the US District Court for the Western District of Pennsylvania against ResMed Limited, seeking a declaratory judgment that Respironics Inc. did not infringe claims of these patents and that ResMed Limited's patents were invalid and unenforceable.

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

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

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

On September 5, 2003, ResMed and Respironics settled both lawsuits involved in the 2002 litigation. ResMed and Respironics have dismissed all claims in the actions with prejudice.

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

On May 6, 2003, ResMed and Fisher & Paykel Healthcare agreed to settle this patent infringement lawsuit. In accordance with the settlement, Fisher & Paykel Healthcare introduced a new design of its mask in the United States and ResMed will not assert intellectual property claims against the new mask. ResMed has dismissed the lawsuit with prejudice.

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

(19) IN-PROCESS RESEARCH AND DEVELOPMENT CHARGE

MAP

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

(i) A single-walled nasal cushion mask system

(ii) A new headgear system

(iii) A standalone active humidifier

(iv) An autotitration CPAP device for treatment of OSA

(v) A new OSA diagnostic screening device.

The status of each project as of June 30, 2004 is as noted below:

(i) Single-walled nasal cushion

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

(ii) New headgear system

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

(iii) Standalone active humidifier

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

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

(iv) Autotitration CPAP device

The main product development effort of MAP since acquisition has been the completion of the Autotitration CPAP flow generator specified in the initial in-process research and development charge, now referred to as the Magellan™. This project experienced some delays due to the complexity of the software algorithm development process and associated electronics resulting in the product being released in November 2002. Sales are now broadly consistent with our initial expectations.

(v) OSA diagnostic screening device

MAP's new diagnostic screening device, the MicroMESAM™, was released in the German market in March 2004. We remain confident in the capacity of the device to enhance the diagnostic process, and remain confident in the potential of the product to significantly impact the treatment and diagnosis of obstructive sleep apnea in the German market.

As at June 30, 2004, four of the five programs have been completed with the release of the Papillon mask system, upgraded headgear, Magellan flow generator and MicroMESAM.

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

BOARD OF DIRECTORS

Peter C Farrell
Chairman and Chief Executive Officer, ResMed Inc

Gary W Pace
Chairman, QrxPharma and former CEO of a number of bio-pharmaceutical research and development companies

Christopher A Bartlett
Thomas D. Casserly Professor Emeritus, Harvard Business School

Donagh McCarthy
Currently consulting with Pharmedium Healthcare Inc., a privately held pharmacy services business. Formerly President and CEO, Protiveris Inc. and President, Baxter Renal Division North America.

Michael A Quinn
CEO of Innovation Capital and formerly CEO of a medical device company and co-founder of NYSE listed environmental company.

Christopher G Roberts
CEO and President Cochlear Limited

Louis A Simpson
President and CEO, Capital Operations, Geico Corporation

SENIOR EXECUTIVE OFFICERS

Mark Abourizk: Vice President, Intellectual Property and Legal Affairs (Asia Pacific)
Lasse Beijer: Chief Executive, Sweden and Scandinavia
Dennis Brodie: Chief Operating Officer, SMI, a wholly owned subsidiary of ResMed
Caroline Carr: Vice President, Global Customer Operations
Grant Carter: Vice President Compliance & Channel Management
Don Darkin: Vice President, Business Divisions
David D'Cruz: Vice President, US Regulatory and Clinical Affairs for the Americas
Robert Douglas: Vice President, Operations
Paul Eisen: Vice President, Europe & Asia Pacific
Michael Farrell: Vice President, Business Development
Robert Frater: Vice President, Innovation
Kieran Gallahue: President, ResMed Global
Connie Garrett: Vice President, Global Human Resources
Elliott Glick: Vice President, US Operations
Lionel King: Vice President, Regulatory and Clinical Affairs for Australia
Brett Lenthall: Vice President, Information Systems
Phillip Miller: Vice President, Product Development, Telemedicine and Informatics Services
William Nicklin: Vice President, Global Manufacturing
David Pendarvis: Vice President and General Counsel
Alain Perséguers: Chief Executive, Southern Europe
Eric Phuah: Vice President, OSA and Bilevel Business Division
Ron Richard: Vice President, Marketing, Americas
Glenn Richards: Medical Director
Greg Rogers: Vice President, Six Sigma
Klaus Schindhelm: Senior Vice President, Cardiorespiratory Development
Joerg Schneider: Chief Executive, ResMed Germany
Keith Serzen: Senior Vice President, Sales, Marketing and Clinical Education
Adrian Smith: Senior Vice President, Finance and Chief Financial Officer
Ross Sommerville: Managing Director, ResMed UK and Ireland
Shirley Sproats: Vice President, Human Resources for Australia
Caspar Stauffenberg: Chief Executive, MAP, Germany
Deirdre Stewart: Vice President, Strategic Clinical Initiatives
Ann Tisthammer: Vice President, Clinical Education and Training
Dana Voien: Senior Vice President, Telemedicine and Channel Management

SHAREHOLDERS' INFORMATION

Our common stock commenced trading on June 2, 1995 on the NASDAQ National Market under the symbol "RESM". On September 30, 1999, we transferred our primary listing to the New York Stock Exchange (NYSE) under the symbol "RMD". The following table sets forth for the fiscal periods indicated the high and low closing prices for the common stock as reported by the New York Stock Exchange.

	2004		2003	
	HIGH	LOW	HIGH	LOW
Quarter One, ended September 30	$43.98	$38.58	$33.63	$24.89
Quarter Two, ended December 31	46.49	38.05	34.13	27.63
Quarter Three, ended March 31	47.95	40.69	33.87	29.67
Quarter Four, ended June 30	$51.56	$44.84	$41.95	$32.00

As of August 20, 2004, there were 64 holders of record of our common stock. We have not paid any cash dividends on our common stock since our initial public offering of our common stock and we do not currently intend to pay cash dividends in the foreseeable future. We anticipate that all of our earnings and other cash resources, if any, will be retained for the operation and expansion of our business and for general corporate purposes.

YEARS ENDED JUNE 30 In thousands except per share data

	04	03	02	01	00	99	98	97	96	95
Net revenues	339,338	273,570	204,076	155,156	115,615	88,627	66,519	49,180	34,562	23,501
Income from operations	85,361	67,240	51,159	44,269*	33,138	25,255	17,363	8,327	3,595	2,787
Income before income taxes	84,668	67,127	54,592	45,541*	34,166	24,577	16,112	11,087	6,561	3,781
Net income	57,284	45,729	37,506	29,857*	22,226	16,102	10,611	7,465	4,503	2,833
Basic EPS	1.70	1.38	1.17	0.96*	0.74	0.55	0.37	0.26	0.16	0.19
Diluted EPS	1.63	1.33	1.10	0.89*	0.69	0.52	0.35	0.26	0.16	0.16
Working capital	217,238	191.322	142,809	144,272	47,550	32,529	32,759	34,395	30,844	27,354
Long-term debt	113,250	113,250	123,250	150,000	—	—	—	274	578	787
Shareholders' equity	361,499	286,433	192,930	100,366	93,972	71,647	50,773	44,625	38,986	28,867
Total assets	544,159	459,595	376,191	288,090	115,594	89,889	64,618	54,895	47,299	35,313

*Numbers after MAP acquisition are: Income from operations 26,042; Income before income taxes 27,314; Net income 11,630; Basic EPS 0.37; Diluted EPS 0.35

CONVERTIBLE NOTES INQUIRIES

The indenture trustee for the notes is American Stock Transfer and Trust Company. Inquiries regarding the notes should be directed to:

American Stock Transfer and Trust Company
59 Maiden Lane
New York, NY 10038
Tel: +1 718 921 8275

The notes and the common stock issuable upon conversion of the notes (the Securities) were not registered under the Securities Act or any other state or foreign securities laws at the time of issue. The Securities were subsequently registered for resale under Securities Act (Registration No. 333-70500) effective October 9, 2001; and consequently, the Securities may be resold in accordance with the prospectus that is part of the registration statement by the selling security holders' names in the prospectus or a supplement to the prospectus. Other sales of the Securities may only be made in compliance with the registration requirements of the Securities Act and all other applicable securities laws, or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any other applicable securities laws.

TRANSFER AGENT AND REGISTRAR

Inquiries regarding transfer requirements, lost certificates, and changes of address should be directed to either of the following:

American Stock Transfer and Trust Company
59 Maiden Lane
New York, NY 10038
Tel: +1 718 921 8275

Computershare, Level 3
60 Carrington Street
Sydney NSW 2000
Tel: +61 2 8234 5000

LEGAL COUNSEL

Latham and Watkins
650 Town Center Drive, Suite 2000
Costa Mesa, CA 92626 USA

INDEPENDENT AUDITORS

KPMG LLP
750B Street, Suite 3000
San Diego, CA 92101 USA

FORM 10-K

Copies of the ResMed Inc. annual report on Form 10-K, as filed with the Securities and Exchange Commission, are available upon request without charge.

Please address written requests to:
Hillary Theakston,
Director, Investor Relations, ResMed Inc.
14040 Danielson Street
Poway, CA 92064-6857 USA

SHAREHOLDER AND INVESTOR INQUIRIES

ResMed has a Web site containing details about the company, its products, SDB, and information for sleep professionals, as well as the latest company news releases.
You can visit the Web site at www.resmed.com.

To directly receive copies of company news and other investor information, please contact:
Hillary Theakston,
Director, Investor Relations, ResMed Inc.
14040 Danielson Street
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Fax: +1 858 746 2830
E-mail: investorrelations@resmed.com

Security analysts and institutional investors are invited to contact:
Adrian M. Smith,
Senior Vice President, Finance, ResMed Inc.
Tel: +61 2 9886 5000 or

Hillary Theakston,
Director, Investor Relations, ResMed Inc.
Tel +1 858 746 2400

ANNUAL MEETING OF SHAREHOLDERS

The annual meeting of shareholders will be held on Thursday, November 18, 2004, at 3pm at ResMed Inc., 14040 Danielson Street, Poway, CA, USA.

References

GROWING MARKETS

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GROWING AWARENESS

1. Schädlich S et al.
2. Topfer V et al.
3. Milleron et al.

SHAREHOLDER AND INVESTOR INQUIRIES

ResMed has a Web site containing details about the company, its products, sleep-disordered breathing, and information for sleep professionals, as well as the latest company news releases. You can visit the Web site at www.resmed.com.

To directly receive copies of company news and other investor information, please contact:

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ANNUAL MEETING OF SHAREHOLDERS

The annual meeting of shareholders will be held on Thursday, November 18, 2004, at 3pm at ResMed Inc., 14040 Danielson Street, Poway, CA, USA.

FORM 10-K

Copies of the ResMed Inc. annual report on Form 10-K, as filed with the Securities and Exchange Commission, are available upon request without charge.

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