RESMED INC
Form 10-K
August 28, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2008

Commission file number: 001-15317

RESMED INC.

(Exact name of registrant as specified in its Charter)

Delaware

(State or other jurisdiction of incorporation or organization)

98-0152841

(IRS Employer Identification No.)

14040 Danielson Street

Poway, CA 92064-6857

United States of America

(Address of principal executive offices)

(858) 746-2400

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, $.004 Par Value

Name of each exchange upon which registered

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [x] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes [ ] No [x]

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K (S 229.405 of this Chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer [x] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of registrant as of December 31, 2007 (the last business day of the registrant s most recently completed second fiscal quarter), computed by reference to the closing sale price of such stock on the New York Stock Exchange, was approximately $3,995,938,000. All directors, executive officers, and 10% stockholders of registrant are considered affiliates.

At August 17, 2008, registrant had 75,564,201 shares of Common Stock, $.004 par value, issued and outstanding. This number excludes 5,498,218 shares held by the registrant as treasury shares.

Portions of the registrant s definitive Proxy Statement to be delivered to shareholders in connection with the registrant s 2008 Annual Meeting of Stockholders, to be filed subsequent to the date hereof, are incorporated by reference into Part III of this report.

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As used in this 10-K, the terms we , us , our and the Company refer to ResMed Inc., a Delaware corporation, and its subsidiaries, on a consolidated basis, unless otherwise stated.

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PART I

Cautionary Note Regarding Forward-Looking Statements

This report contains or may contain certain forward-looking statements and information that are based on the beliefs of our management as well as estimates and assumptions made by, and information currently available to our management. All statements other than statements regarding historical facts are forward-looking statements. The words believe, expect, anticipate, intend, seek, will, will continue, estimate, p other similar expressions generally identify forward-looking statements, including, in particular, statements regarding the development and approval of new products and product applications, market expansion, pending litigation, and the development of new markets for our products, such as cardiovascular and stroke markets. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on these forward-looking statements each of which applies only as of the date of this report. Such forward-looking statements reflect the views of our management at the time such statements are made and are subject to a number of risks, uncertainties, estimates and assumptions, including, without limitation, and in addition to those identified in the text surrounding such statements, those identified in Item 1A Risk Factors and elsewhere in this report.

In addition, important factors to consider in evaluating such forward-looking statements include changes or developments in social, economic, market, legal or regulatory circumstances, changes in our business or growth strategy or an inability to execute our strategy due to changes in our industry or the economy generally, the emergence of new or growing competitors, the actions or omissions of third parties, including suppliers, customers, competitors and governmental authorities, the impact of future developments related to the recently announced product recall, and various other factors subject to risks and uncertainties which could cause actual results to materially differ from those projected or implied in the forward-looking statements. Should any one or more of these risks or uncertainties materialize, or the underlying estimates or assumptions prove incorrect, actual results may vary significantly from those expressed in such forward-looking statements, and there can be no assurance that the forward-looking statements contained in this report will in fact occur.

ITEM 1 BUSINESS

General

We are a leading developer, manufacturer and distributor of medical equipment for treating, diagnosing, and managing sleep-disordered breathing and other respiratory disorders. Sleep-disordered breathing, or SDB, includes obstructive sleep apnea, or 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 CPAP, 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 CPAP, we have developed a number of innovative products for SDB and other respiratory disorders including airflow generators, diagnostic products, mask systems, headgear and other accessories. Our growth has been fuelled by geographic expansion, increased awareness of respiratory conditions as a significant health concern among physicians and patients, and our research and product development efforts.

We employ approximately 2,700 people and sell our products in over 70 countries through a combination of wholly owned subsidiaries and independent distributors.

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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 Americas, Asia-Pacific 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, or NYSE, trading under the ticker symbol RMD. On November 25, 1999, we established a secondary listing of our common stock via Chess Depositary Instruments, or CDI s, on the Australian Stock Exchange (now known as the Australian Securities Exchange),, or ASX, also under the symbol RMD. Ten CDI s 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:

Name of Entity	Date of Acquisition
Dieter W. Priess Medtechnik	February 7, 1996
Premium Medical SARL	June 12, 1996
Innovmedics Pte Ltd	November 1, 1997
EINAR Egnell AB	January 31, 2000
MAP Medizin Technologie GmbH	February 16, 2001
Labhardt AG	November 15, 2001
Servo Magnetics Inc.	May 14, 2002
John Stark and Associates	July 24, 2002
Respro Medical Company Limited	July 2, 2003
Resprecare BV	December 1, 2004
Hoefner Medizintechnik GmbH	February 14, 2005
Saime SA	May 19, 2005
Pulmomed Medizinisch-Technische Geräte GmbH	July 1, 2005
PolarMed Holding AS	December 1, 2005
Western Medical Marketing	October 4, 2006

Segment Information

The Company believes that, given the single market focus of its operations solely in the sleep-disordered breathing sector of the respiratory medicine industry, and the inter-dependence of its products, the Company operates as a single operating segment. See Note 16 Segment Information of the Notes to Financial Statements (Part II, Item 8) for financial information regarding segment reporting. Financial information about our revenues from and assets located in foreign countries is also included in the notes to our consolidated financial statements.

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The Market

Sleep is a complex neurological process that includes two distinct states: rapid eye movement, or REM, sleep and non-rapid eye movement, or non-REM, sleep. REM sleep, which is about 20-25% of total sleep experienced by adults, is characterized by a high level of brain activity, bursts of rapid eye movement, increased heart and respiration rates, and paralysis of many muscles. Non-REM sleep is subdivided into four stages that generally parallel sleep depth; stage 1 is the lightest and stage 4 is the deepest.

The upper airway has no rigid support and is held open by active contraction of upper airway muscles. Normally, during REM sleep and deeper levels of non-REM sleep, upper airway muscles relax and the airway narrows. Individuals with narrow upper airways or poor muscle tone are prone to temporary collapses of the upper airway during sleep, called apneas, and to near closures of the upper airway called hypopneas. These breathing irregularities result in a lowering of blood oxygen concentration, causing the central nervous system to react to the lack of oxygen or increased carbon dioxide and signaling the body to respond. Typically, the individual subconsciously arouses from sleep, causing the throat muscles to contract, opening the airway. After a few gasping breaths, blood oxygen levels increase and the individual can resume a deeper sleep until the cycle repeats itself. Sufferers of OSA typically experience ten or more such cycles per hour. While these awakenings greatly impair the quality of sleep, the individual is not normally aware of these disruptions. In addition, OSA has recently been recognized as a cause of hypertension and a significant co-morbidity for heart disease, stroke and diabetes.

Scientists estimate that one in five adults have some form of obstructive sleep apnea. In the United States alone, this represents approximately 40 million people. Despite the high prevalence of OSA, there is a general lack of awareness of OSA among both the medical community and the general public. It is estimated that less than 10% of those with OSA have been diagnosed or treated. Many healthcare professionals are often unable to diagnose OSA because they are unaware that such non-specific symptoms as excessive daytime sleepiness, snoring, hypertension and irritability are characteristic of OSA.

While OSA has been diagnosed in a broad cross-section of the population, it is predominant among middle-aged men and those who are obese, smoke, consume alcohol in excess or use muscle-relaxing and pain-killing drugs. A strong association has been discovered between OSA and a number of cardiovascular diseases. Recent studies have shown that SDB is present in approximately 80% of patients with drug-resistant hypertension, approximately 72% of patients with type 2 diabetes and approximately 80% of patients with congestive heart failure. In relation to diabetes: recent studies indicate that SDB is independently associated with glucose intolerance and insulin resistance.

Sleep-Disordered Breathing and Obstructive Sleep Apnea

Sleep-disordered breathing encompasses all physiological processes that cause detrimental breathing patterns during sleep. Manifestations include OSA, central sleep apnea, or CSA, and hypoventilation syndromes that occur during sleep. Hypoventilation syndromes are generally associated with obesity, chronic obstructive lung disease and neuromuscular disease. OSA is the most common form of SDB.

Sleep fragmentation and the loss of the deeper levels of sleep caused by OSA can lead to excessive daytime sleepiness, reduced cognitive function, including memory loss and lack of concentration, depression and irritability. OSA sufferers also experience an increase in heart rate and an elevation of blood pressure during the cycle of apneas. Several studies indicate that the oxygen desaturation, increased heart rate and elevated blood pressure caused by OSA may be associated with increased risk of cardiovascular morbidity and mortality due to angina, stroke and heart attack. Patients with OSA

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have been shown to have impaired daytime performance in a variety of cognitive functions including problem solving, response speed and visual motor coordination, and studies have linked OSA to increased occurrences of traffic and workplace accidents.

Generally, an individual seeking treatment for the symptoms of OSA is referred by a general practitioner to a specialist for further evaluation. The diagnosis of OSA typically requires monitoring the patient during sleep at either a sleep clinic or the patient s home. During overnight testing, respiratory parameters and sleep patterns may be monitored, along with other vital signs such as heart rate and blood oxygen levels. Simpler tests, using devices such as our Apnealink, or our automatic positive airway pressure devices, monitor airflow during sleep, and use computer programs to analyze airflow patterns. These tests allow sleep clinicians to detect any sleep disturbances such as apneas, hypopneas or subconscious awakenings. We estimate that there are currently around 3,000 sleep clinics in the United States, a substantial portion of which are affiliated with hospitals. The number of sleep clinics has expanded significantly from approximately 100 such facilities in 1985.

Existing Therapies

Before 1981, the primary treatment for OSA was a tracheotomy, a surgical procedure to cut a hole in the patient s windpipe to create a channel for airflow. Most recently, alternative treatments have involved either uvulopalatopharyngoplasty, or UPPP, in which surgery is performed on the upper airway to remove excess tissue and to streamline the shape of the airway, implanting a device to add support to the soft palate, or mandibular advancement, in which the lower jaw is moved forward to widen the patient s airway. UPPP alone has a poor success rate; however, when performed in conjunction with multi-stage upper airway surgical procedures, a greater success rate has been claimed. These combined procedures, performed by highly specialized surgeons, are expensive and involve prolonged and often painful recovery periods.

CPAP, by contrast, is a non-invasive means of treating OSA. CPAP was first used as a treatment for OSA in 1980 by Dr. Colin Sullivan, the past Chairman of our Medical Advisory Board. CPAP systems were commercialized for treatment of OSA in the United States in the mid 1980 s. Today, use of CPAP is generally acknowledged as the most effective and least invasive therapy for managing OSA.

During CPAP treatment, a patient sleeps with a nasal interface connected to a small portable airflow generator that delivers room air at a positive pressure. The patient breathes in air from the flow generator and breathes out through an exhaust port in the interface. Continuous air pressure applied in this manner acts as a pneumatic splint to keep the upper airway open and unobstructed. Interfaces include nasal masks and nasal pillows. Sometimes, when a patient leaks air through their mouth, a full-face mask may need to be used, rather than a nasal interface.

CPAP is not a cure and therefore, must be used on a nightly basis as long as treatment is required. Patient compliance has been a major factor in the efficacy of CPAP treatment. Early generations of CPAP units provided limited patient comfort and convenience. Patients experienced soreness from the repeated use of nasal masks and had difficulty falling asleep with the CPAP device operating at the prescribed pressure. In more recent years, product innovations to improve patient comfort and compliance have been developed. These include more comfortable patient interface systems; delay timers that gradually raise air pressure allowing the patient to fall asleep more easily; bilevel air flow generators, including Variable Positive Airway Pressure, or VPAP systems, which provide different air pressures for inhalation and exhalation; heated humidification systems to make the airflow more comfortable; and autotitration devices that reduce the average pressure delivered during the night.

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Business Strategy

We believe that the SDB market will continue to grow in the future due to a number of factors including increasing awareness of OSA, improved understanding of the role of SDB treatment in the management of cardiac, neurologic, metabolic and related disorders, and an increase in home-based diagnosis. Our strategy for expanding our business operations and capitalizing on the growth of the SDB market consists of the following key elements:

Continue Product Development and Innovation. We are committed to ongoing innovation in developing products for the diagnosis and treatment of SDB. We have been a leading innovator of products designed to more effectively treat SDB, increase patient comfort and encourage compliance with prescribed therapy. For example, in 1999 we introduced the Mirage Full Face Mask. This mask contains an inflatable air pocket, which conforms to the patient s facial contours, creating a more comfortable and better seal. In 2002, we introduced the AutoSet Spirit flow generator, our second-generation autotitrating device that adapts to the patient s breathing patterns to more effectively treat OSA. In 2003, we introduced the Mirage Activa nasal mask, with active cushion technology to seal automatically mask leaks. In 2004, we introduced the Mirage Swift nasal pillows system, a less obtrusive, lightweight, and flexible alternative to nasal masks. In 2005, we introduced the S8 range of CPAP, a small flow generator with optional integrated humidification. In 2007, we introduced the Mirage Quattro, a full face mask that offers dual-wall cushion with spring air technology which accommodates movement during sleep, and the Mirage Liberty, which combines our nasal pillow technology in a full face mask product with a minimalist design. In 2008, we launched several new patient interfaces including the Mirage Micro, a new generation nasal mask with a microfit dial and the Swift LT which offers a pillow system for additional support and comfort. In 2008, we also launched an updated version of our S8 flow generator and the VPAP Auto, a new bi-level device incorporating our new motor technology including the easy-breathe waveform. We believe that continued product development and innovation are key factors to our ongoing success. Approximately 12% of our employees are devoted to research and development activities. In fiscal year 2008, we invested $60.5 million, or 7% of our revenues, in research and development.

Expand Geographic Presence. We market our products in over 70 countries to sleep clinics, home healthcare dealers and third party payers. We intend to increase our sales and marketing efforts in our principal markets, as well as expand the depth of our presence in other geographic regions.

Increase Public and Clinical Awareness. We intend to continue to expand our existing promotional activities to increase awareness of SDB and our treatment alternatives. These promotional activities target the population with predisposition to SDB as well as primary care physicians and specialists, such as cardiologists, neurologists and pulmonologists. In addition, we also target special interest groups, including the National Stroke Association, the American Heart Association and the National Sleep Foundation.

During fiscal years 2008, 2007 and 2006, we donated $2.0 million, $Nil and $0.8 million, respectively, to the ResMed Foundation in the United States, and the ResMed Foundation in Australia, to further enhance research and awareness of SDB. The contributions to the Foundations reflect ResMed s commitment to medical research into sleep-disordered breathing, particularly the treatment of obstructive sleep apnea.

Expand into New Clinical Applications. We continually seek to identify new applications of our technology for significant unmet medical needs. Recent studies have established a clinical association between OSA and both stroke and congestive heart failure, and have recognized SDB as a cause of hypertension or high blood pressure. Research also indicates that SDB is independently associated with glucose intolerance and insulin resistance. We have developed a device for the treatment of

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Cheyne-Stokes breathing in patients with congestive heart failure. In addition, we maintain close working relationships with a number of prominent physicians to explore new medical applications for our products and technology. In 2007 we received Food and Drug Administration, or FDA, clearance and launched a new product in the United States for the treatment of respiratory insufficiency due to central sleep apnea, mixed apnea and periodic breathing, called the Adapt SV. The Adapt SV uses a technology known as adaptive servo-ventilation and was first made available to a select group of U.S. key opinion leader sites beginning in the third quarter of fiscal year 2006. Adaptive servo-ventilation, utilizes an advanced algorithm to calculate a patient-specific minute ventilation target and automatically adjusts pressure support to maintain the target. We believe this technology has allowed physicians to successfully treat complex breathing disorders in some patients who had previously tried and failed traditional positive airway pressure therapy.

Leverage the Experience of our Management Team. Our senior management team has extensive experience in the medical device industry in general, and in the field of SDB in particular. We intend to continue to leverage the experience and expertise of these individuals to maintain our innovative approach to the development of products and increase awareness of the serious medical problems caused by SDB.

Products

Our portfolio of products for the treatment of OSA and other forms of SDB includes airflow generators, diagnostic products, mask systems, headgear and other accessories.

Air Flow Generators

We produce CPAP, VPAP and AutoSet systems for the titration and treatment of SDB. The flow generator systems deliver positive airway pressure through a patient interface, either a small nasal mask, nasal pillows system, or full-face mask.

Our VPAP units deliver ultra-quiet, comfortable bilevel therapy. There are two preset pressures: a higher pressure as the patient breathes in, and a lower pressure as the patient breathes out. Breathing out against a lower pressure makes treatment more comfortable, particularly for patients who need high pressure levels or for those with impaired breathing ability.

AutoSet systems are based on a proprietary technology to monitor breathing and can also be used in the diagnosis, treatment and management of OSA. CPAP and VPAP flow generators accounted for approximately 50%, 52% and 52% of our net revenues in fiscal years 2008, 2007 and 2006, respectively.

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With the acquisition of Saime SA in May 2005, we increased our presence in the European homecare ventilation market. The VS and Elisée range of products are sophisticated, yet easy to use for physicians, clinicians and patients. We believe these devices compliment our VPAP III, VPAP Adapt SV and Autoset CS2 for patients who need ventilatory assistance.

CONTINUOUS POSITIVE AIRWAY PRESSURE PRODUCTS	DESCRIPTION	DATE OF COMMERCIAL INTRODUCTION
AutoSet CS*#	Automatic ventilatory assistance device specifically designed to normalize ventilation in congestive heart failure patients with Cheyne Stokes respiration.	December 1998
AutoSet T	Autotitrating device, which continually adjusts CPAP treatment pressure based on airway resistance.	March 1999
AutoSet Spirit	Modular, autotitrating device with advanced compliance monitoring and optional integrated humidifier.	September 2001
Magellan*#	Autotitrating device using airway resistance measurement.	March 2003
AutoSet Respond	Autotitrating device with basic compliance monitoring and optional integrated humidifier.	September 2003
AutoSet CS2*#	Modular, automatic device specifically designed to normalize ventilation in congestive heart failure patients with Cheyne Stokes respiration. The device has an optional integrated humidifier.	August 2004
S8 Autoset II	Premium auto-adjusting device in ResMed s S8 Series II range, with improved patient therapy comfort. The device has an optional integrated humidifier.	April 2008

* Not cleared for marketing in the United States

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AUTOMATIC POSITIVE AIRWAY PRESSURE PRODUCTS	DESCRIPTION	DATE OF COMMERCIAL INTRODUCTION
Max II nCPAP*#	CPAP device with or without integrated humidifier. Features low noise and reduced pressure swings.	April 1997
Mini Max nCPAP*#	CPAP device with integrated and attachable humidifier and low noise levels.	March 2000
ResMed S6 series	Quiet, compact CPAP device with various comfort features.	June 2000
ResMed S7 series	A CPAP device with optional integrated humidifier.	July 2002
ResMed S8 Series	A small CPAP device with optional integrated humidification.	June 2005
C-Series Tango	An entry level CPAP device with optional humidification	March 2007
ResMed S8 Series II	A small CPAP device with enhanced feature set to the orginal S8 Series, with improved patient therapy comfort. The device has an optional integrated humidifier.	April 2008

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VARIABLE POSITIVE AIRWAY PRESSURE PRODUCTS	DESCRIPTION	DATE OF COMMERCIAL INTRODUCTION
VPAP II	Bilevel portable device providing different pressure levels for inhalation and exhalation, improved pressure switching and reduced noise output and spontaneous breath triggering.	March 1996
COMFORT	Bilevel device with limited features.	March 1996
VPAP II ST	Bilevel portable device with spontaneous and spontaneous/timed breath triggering modes of operation.	April 1996
VPAP II STA	Bilevel device with alarms.	August 1998
VPAP MAX	Bilevel ventilatory support system for the treatment of adult patients with respiratory insufficiency or respiratory failure.	November 1998
Moritz S#*	Bilevel portable device providing different pressure levels for inhalation and exhalation with integrated humidifier.	October 2001
Moritz ST#*	Bilevel ST device with spontaneous and spontaneous/timed breath triggering modes of operation, and with power failure alarms, system with integrated humidifier.	October 2001
VPAP III	Updated Bilevel portable device encompassing improved pressure synchronization, spontaneous breath triggering and reduced noise.	April 2003
VPAP III ST	Updated Bilevel ST portable device encompassing improved pressure synchronization, spontaneous and spontaneous/timed breath triggering modes of operation and reduced noise.	April 2003
VPAP III STA	An upgraded Bi-level device with alarm features.	August 2004
Adapt SV	The newest and most highly evolved bilevel device which uses adaptive servo-ventilation technology to treat patients with central sleep apnea, mixed apnea and periodic breathing.	March 2006
VPAP Malibu	Auto-adjusting bilevel device utilizing the smooth pressure waveform of the VPAP Adapt SV to achieve ultimate comfort for non-compliant CPAP users.	April 2007
VPAP Auto	Auto-bilevel device on the compact S8 platform , utilizing the easy-breathe waveform and Autoset algorithms.	January 2008

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VENTILATION PRODUCTS	DESCRIPTION	DATE OF COMMERCIAL INTRODUCTION
Helia 2*#	Dual mode ventilator that combines volumetric and barometric ventilation modes.	August 1998
Eole 3 XLS*#	Ventilator device providing conventional volumetric ventilation through both controlled and assisted-controlled ventilation with etv functions.	December 1999
VS Serena*#	Bi-level ventilator providing all ventilation modes with two pressure levels.	June 2001
VS Ultra*#	Dual mode ventilator that combines volumetric and barometric ventilation from leakage to valve type with single or double limb circuit.	March 2002
VS Integra*#	Pressure support ventilator that combines pressure modes with leakage or valve ventilators.	March 2002
Elisée 350*#	Ventilator for use in Intensive Care Unit combining all conventional ventilation modes, diagnostic and monitoring functions.	December 2003
Elisée 150*#	Ventilator device that combines volumetric and barometric ventilation modes with single or double limb circuit.	June 2004
Elisée 370*#	Ventilator for use in Intensive Care Unit combining all conventional ventilation modes, diagnostic functions with external monitoring interface for ventilation loops.	September 2004
Elisée 250*#	Ventilator for use in transport and emergency situations.	April 2005

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Mask Systems and Diagnostic Products

Mask systems are one of the most important elements of SDB treatment systems. Masks are a primary determinant of patient comfort and as such may drive or impede patient compliance with therapy. We have been a consistent innovator in masks, improving patient comfort while minimizing size and weight. Masks, accessories, motors and diagnostic products accounted for approximately 50%, 48% and 48% of our net revenues in fiscal years 2008, 2007 and 2006, respectively.

MASK PRODUCTS	DESCRIPTION	DATE OF COMMERCIAL INTRODUCTION
Mirage Mask	Proprietary mask design with a contoured nasal cushion that adjusts to patient s facial contours. Quiet, light and low profile.	August 1997
Ultra Mirage Mask	Advanced version of the Mirage system with reduced noise characteristics and improved forehead bridge.	June 2000
Mirage Full Face Mask Series 2	Mirage-based full-face mask system. Provides an effective method of applying ventilatory assist Noninvasive Positive Pressure Ventilation therapy. Can be used to address mouth- breathing problems in conventional bilevel or CPAP therapy.	October 2001
Papillon Mask*#	Nasal mask with only four major parts, allows simplified handling for patients and distributors.	April 2002
Mirage Vista Mask	Small nasal mask without forehead supports.	November 2002
Ultra Mirage Full Face Mask	Full-face mask incorporating our latest adjustable forehead support technology.	August 2003
Mirage Activa Mask	Nasal mask system utilizing Active Seal technology to mitigate leak and improve patient comfort.	October 2003
Mirage Swift	A light and unobtrusive nasal cannula mask system.	August 2004
Silent Papillon Mask*#	A low noise nasal mask with simplified assembly.	March 2005
Hospital Full Face Mask	Disposable full face mask specifically designed for hospital use.	April 2005
Hospital Nasal Mask	Disposable nasal mask specifically designed for hospital use.	April 2005
Ultra Mirage II	Advanced version of the Ultra Mirage Nasal System with improved comfort and ease of fit through enhanced forehead pads and support.	July 2005
Meridian Nasal Mask	A value line nasal mask that is simple yet comfortable.	February 2006
Mirage Swift II	Improved design to reduce noise and airflow pattern.	April 2007

Mirage Quattro	ResMed s fourth generation full face mask, delivering an individualized fit for over 95% of users.	April 2007
Mirage Liberty	A full face mask that seals individually at the mouth and nose. With less skin contact and an open field of vision, this unobtrusive mask feels light on the face.	May 2007
Hospital NV Full Face Mask	Non-vented version of hospital Full Face Mask designed for hospital ventilation	October 2007
Micro Mirage	Nasal mask equipped with Mircofit dial for personalized fit	February 2008
Swift LT	Nasal mask offering pillow system for additional support and stability	June 2008

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We market sleep recorders for the diagnosis and titration of SDB in sleep clinics and hospitals. These diagnostic systems record relevant respiratory and sleep data, which can be analyzed by a sleep specialist or physician who can then tailor an appropriate OSA treatment regimen for the patient.

DIAGNOSTIC PRODUCTS	DESCRIPTION	DATE OF COMMERCIAL INTRODUCTION
Poly-MESAM Portable Diagnostic System*α#	Configurable cardio-respiratory polygraphy system up to 8 channels, includes ECG, thorax and abdomen belts, PLMS sensor.	February 1995
MEPAL Diagnostic System*α#	Polysomnography system designed for use in the sleep laboratory.	February 1999
Embla$^{\alpha}$	Digital sleep recorder that provides comprehensive sleep diagnosis in a sleep laboratory.	October 1999
Embletta$^{\alpha}$	Pocket-size digital recorder that performs ambulatory sleep studies.	November 2000
MEPAL *mobil* *$^{\alpha\#}$ Diagnostic System	Ambulatory polysomnography system.	March 2001
ApneaLink (MicroMesam)	A portable Sleep Apnea screening device for use by sleep professionals and primary care physicians.	April 2004
ApneaLink + Oximetry	A portable Sleep Apnea screening device with oximetry measurement	June 2007

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α Not manufactured by ResMed

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Accessories and Other Products

To enhance patient comfort, convenience and compliance, we market a variety of other products and accessories. These products include humidifiers, such as the HumidAire, H2i and H3i, which connect directly with the CPAP, VPAP and AutoSet flow generators to humidify and heat the air delivered to the patient. Their use helps prevent the drying of nasal passages that can cause discomfort. Other optional accessories include cold passover humidifiers, carry bags and breathing circuits. To assist those professionals diagnosing or managing the treatment of patients there are data communications and control products such as the ResLink, ResControl, ResControl II, TxControl, ResScan and ResTraxx modules that facilitate the transfer of data and other information to and from the flow generators.

Product Development and Clinical Trials

We have a strong track record in innovation in the sleep market. In 1989, we introduced our first CPAP device. Since then we have been committed to an ongoing program of product advancement and development. Currently, our product development efforts are focused on not only improving our current product offerings, but also expanding into new product applications.

In 1999, we introduced the AutoSet T flow generator, an autotitrating device that adapts to the patient s breathing patterns to effectively prevent apneas. In 2001, we introduced our next generation autotitrating device, the AutoSet Spirit. The AutoSet Spirit is an autotitrating modular device with optional integrated humidifier. In 2003, we introduced the Activa nasal mask using our patented Active Cushion Technology, which automatically seals mask leaks. In 2004, we launched our Mirage Swift mask, a light and unobtrusive nasal cannula mask system. Also, in 2004 we launched an improved AutoSet CS 2 (outside the United States only) to treat congestive heart failure patients with significant central sleep apnea. In 2006, we launched the Adapt SV within the United States. This product is for the treatment of respiratory insufficiency due to central sleep apnea, mixed apnea and periodic breathing and uses a technology known as adaptive servo-ventilation.

We continually seek to identify new applications of our technology for significant unmet medical needs. SDB is associated with a number of symptoms beyond excessive daytime sleepiness and irritability. Recent studies have established a clinical association between SDB and hypertension, stroke, congestive heart failure and diabetes. We support clinical trials in the United States, Germany, France, the United Kingdom, Italy, Switzerland and Australia to develop new clinical applications for our technology.

We consult with physicians at major sleep centers throughout the world to identify technological trends in the treatment of SDB. New product ideas are also identified by our marketing staff, direct sales force, network of distributors, manufacturers representatives, customers and patients. Typically, our internal development staff then develops these ideas, where appropriate, into new products.

In fiscal years 2008, 2007 and 2006 we invested $60.5 million, $50.1 million and $37.2 million, respectively, on research and development.

Sales and Marketing

We currently market our products in over 70 countries using a network of distributors, independent manufacturers representatives and our direct sales force. We attempt to tailor our marketing approach to each national market, based on regional awareness of SDB as a health problem, physician referral patterns, consumer preferences and local reimbursement policies. See Note 16 Segment Information of the Notes to Financial Statements (Part II, Item 8) for financial information about our geographic areas.

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North America and Latin America. Our products are typically purchased by a home healthcare dealer who then sells the products to the patient. The decision to purchase our products, as opposed to those of our competitors, is made or influenced by one or more of the following individuals or organizations: the prescribing physician and his or her staff; the home healthcare dealer; the insurer and the patient. In the United States, our sales and marketing activities are conducted through a field sales organization made up of regional territory representatives, program development specialists and regional sales directors. Our U.S. field sales organization markets and sells products to home healthcare dealer branch locations throughout the United States.

We also market our products directly to sleep clinics. Patients who are diagnosed with OSA and prescribed CPAP treatment are typically referred by the diagnosing sleep clinic to a home healthcare dealer to fill the prescription. The home healthcare dealer, in consultation with the referring physician, will assist the patient in selecting the equipment, fit the patient with the appropriate mask and set the flow generator pressure to the prescribed level.

Sales in North and Latin America accounted for 49%, 53% and 52% of our net revenues for fiscal years 2008, 2007 and 2006, respectively.

Europe. We market our products in most major European countries. We have wholly-owned subsidiaries in Austria, Finland, France, Germany, Spain, Sweden, Norway, Netherlands, Switzerland and the United Kingdom. We use independent distributors to sell our products in other areas of Europe. Distributors are selected in each country based on their knowledge of respiratory medicine and a commitment to SDB therapy. In each country in which we sell our products direct, a local senior manager is responsible for direct national sales. In many countries in Europe, we sell our products to home healthcare dealers who then sell the products to the patients. In Germany, we also operate a home healthcare company, in which we provide products and services directly to patients, and receive reimbursement directly from third party payers.

Sales in Europe accounted for 43%, 39% and 39% of our total net revenues for fiscal years 2008, 2007 and 2006, respectively.

Asia Pacific. We have wholly owned subsidiaries in Australia, Hong Kong, Japan, Malaysia, New Zealand, Singapore, China and India. We use a combination of our direct sales force and independent distributors to sell our products in Asia Pacific. Sales in Asia Pacific and the rest of the world accounted for 8%, 8% and 9% of our total net revenues for the fiscal years 2008, 2007 and 2006, respectively.

Other Marketing Efforts. We continue to pursue other suitable opportunities with professional and healthcare associations to raise awareness of the co-morbidity of SDB in cardiovascular disease patients, including coronary artery disease, congestive heart failure, hypertension and stroke.

We also continue to work to raise awareness of SDB in diabetes. Current research is increasingly showing an independent association between OSA and type 2 diabetes. Accordingly, we initiated a study investigating the prevalence of OSA in the type 2 diabetic population. Due to the high prevalence of the SDB and type 2 diabetes, we are now actively supporting the American Association of Diabetes Educators and are in the process of setting up further initiatives to develop the SDB market in the diabetic population. ResMed is also reaching out to diabetes patients. Through our partnership with the American Diabetes Association, a sleep laboratory is now present at every *Diabetes Expo* meeting where patients have the opportunity to learn about diabetes self-management.

In June 2008, the International Diabetes Federation (IDF) released a statement on SDB and type 2 diabetes. The IDF Taskforce on Epidemiology and Prevention strongly recommended that health

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professionals working in both type 2 diabetes and SDB adopt clinical practices to ensure that a patient presenting with one condition is considered for the other. Furthermore, the IDF recommended that people with type 2 diabetes should be screened for OSA particularly when they present classical symptoms such as witnessed apneas, heavy snoring or daytime sleepiness and poor workplace performance. We also announced a co-marketing agreement with LifeScan, a Johnson and Johnson company, to increase the level of education and awareness of SDB in the diabetic population. We also announced a co-marketing agreement with LifeScan, a Johnson and Johnson company, to increase the level of education and awareness of SDB in the diabetic population.

Manufacturing

Our principal manufacturing facility is located in Sydney, Australia and comprises a 155,000 square foot manufacturing facility. Our manufacturing operations consist primarily of assembly and testing of our flow generators, masks and accessories. Of the numerous raw materials, parts and components purchased for assembly of our therapeutic and diagnostic sleep disorder products, most are off-the-shelf items available from multiple vendors. We generally manufacture to our internal sales forecasts and fill orders as received. Over the last few years, the manufacturing processes have been transformed along lean manufacturing guidelines to flow lines staffed by dedicated teams. Each team is responsible for the manufacture and quality of their product group and decisions are based on performance and quality measures, including customer feedback.

Our quality management system is based upon the requirements of ISO 9001, ISO 13485, FDA Quality System Regulations for Medical Devices and the Medical Device Directive (93/42/EEC). Our Sydney, Australia and San Diego, California facilities are each accredited to ISO 9001 and ISO 13485. These two sites have third party audits conducted by the ISO certification bodies at regular intervals.

As part of the acquisition of Saime SA on May 19, 2005, we acquired a 7,000 square foot manufacturing facility in Paris, France. This facility is accredited to ISO 13485 and is primarily responsible for the assembly of the Saime brand of mechanical ventilators and associated accessories.

We also manufacture high-quality electric motors for our flow generator devices at the ResMed Motor Technologies Inc. facility which comprises a 72,000 square feet facility at Chatsworth, California.

Third-Party Reimbursement

The cost of medical care in many of the countries in which we operate is funded in substantial part by government and private insurance programs. In Germany, we receive payments directly from these payers. Outside Germany, although we do not generally receive payments for our products directly from these payers, our success in major markets is dependent upon the ability of patients to obtain adequate reimbursement for our products.

In the United States, our products are purchased primarily by home healthcare dealers, hospitals or sleep clinics, which then invoice third-party payers directly for reimbursement. Domestic third-party payers include Medicare, Medicaid and corporate health insurance plans. These payers may deny reimbursement if they determine that a device is not used in accordance with cost-effective treatment methods, or is experimental, unnecessary or inappropriate. The long-term trend towards managed healthcare, or legislative proposals to reform healthcare, could control or significantly influence the purchase of healthcare services and products and could result in lower prices for our products. In some foreign markets, such as Spain, France and Germany, government reimbursement is currently available for purchase or rental of our products, however,

subject to constraints such as price controls or unit sales limitations. In Australia and in some other foreign markets, there is currently limited or no reimbursement for devices that treat OSA.

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For example, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the 2003 Act) reduced medical reimbursement for respiratory drugs and home oxygen to homecare providers and placed a freeze on current reimbursement levels for Durable Medical Equipment (DME) through 2008. As required by the 2003 Act, Medicare plans to implement competitive bidding of durable medical equipment in 10 of the largest Metropolitan Statistical Areas (MSA) by the end of 2007, and in 80 of the largest MSAs by the end of 2009. In addition, the U.S. Congress passed the Deficit Reduction Act of 2005 (2005 Act) in February 2006 which contained Medicare payment reductions for home oxygen equipment, and certain durable medical equipment classified by Medicare as capped rental equipment. In August 2006, the Centers for Medicare and Medicaid Services published a proposed regulation to implement the 2005 Act which could reduce Medicare reimbursement in 2007 for oxygen equipment. Additional reimbursement reductions for home oxygen were proposed in President Bush s Fiscal Year 2007 budget proposal, and could also be enacted into law. Both the federal government and state legislatures are considering options for containing growth in the Medicaid program.

Even though we do not file claims or bill governmental programs and other third-party payers directly for reimbursement for our products sold in the United States, we are still subject to laws and regulations relating to governmental programs, and any violation of these laws and regulations could result in civil and criminal penalties, including fines. In particular, the federal Anti-Kickback Law prohibits persons from knowingly and willfully soliciting, receiving, offering or providing remuneration, directly or indirectly, to induce either the referral of an individual, or the furnishing, recommending or arranging for a good or service, for which payment may be made under a Federal healthcare program such as the Medicare and Medicaid programs. The government has interpreted this law broadly to apply to the marketing and sales activities of manufacturers and distributors like us. Many states have adopted laws similar to the federal Anti-Kickback Law. We are also subject to other federal and state fraud laws applicable to payment from any third-party payer. These laws prohibit persons from knowingly and willfully filing false claims or executing a scheme to defraud any healthcare benefit program, including private third-party payers. These laws may apply to manufacturers and distributors who provide information on coverage, coding and reimbursement of their products to persons who bill third-party payers. We continuously strive to comply with these laws and believe that our arrangements do not violate these laws. Liability may still arise from the intentions or actions of the parties with whom we do business or from a different governmental agency interpretation of the laws.

Service and Warranty

We generally offer one-year and two-year limited warranties on our flow generator products. Warranties on mask systems are for 90 days. In most markets, we rely on our distributors to repair our products with parts supplied by us. In the United States, home healthcare dealers generally arrange shipment of products to our San Diego facility for repair.

We receive returns of our products from the field for various reasons. We believe that the level of returns experienced to date is consistent with levels typically experienced by manufacturers of similar devices. We provide for warranties and returns based on historical data.

Competition

The markets for our products are highly competitive. We believe that the principal competitive factors in all of our markets are product features, reliability and price. Customer support, reputation and efficient distribution are also important factors.

We compete on a market-by-market basis with various companies, some of which have greater financial, research, manufacturing and marketing resources than us. In the United States, our principal

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market, Philips BV, who recently acquired Respironics Inc., a previous competitor; DeVilbiss, a division of Sunrise Medical Inc.; Nellcor Puritan Bennett, a division of Covidien Ltd.; and Fisher & Paykel Healthcare Corporation Limited are the primary competitors for our products. Our principal European competitors are also Philips, DeVilbiss, and Nellcor Puritan Bennett, as well as regional European manufacturers. The disparity between our resources and those of our competitors may increase as a result of the trend towards consolidation in the healthcare industry. In addition, our products compete with surgical procedures and dental appliances designed to treat OSA and other SDB related respiratory conditions. The development of new or innovative procedures or devices by others could result in our products becoming obsolete or noncompetitive, which would harm our revenues and financial condition.

Any product developed by us that gains regulatory clearance will have to compete for market acceptance and market share. An important factor in such competition may be the timing of market introduction of competitive products. Accordingly, the relative speed with which we can develop products, complete clinical testing and regulatory clearance processes and supply commercial quantities of the product to the market are important competitive factors. In addition, our ability to compete will continue to be dependent on the extent to which we are successful in protecting our patents and other intellectual property.

Patents and Proprietary Rights and Related Litigation

Through our subsidiaries ResMed Limited, MAP Medizin-Technologie GmbH, ResMed Motor Technologies Inc., and Saime SAS, we own or have licensed rights to 342 issued United States patents (including 143 design patents) and 457 issued foreign patents. In addition, there are 401 pending United States patent applications (including 96 design patent applications), 750 pending foreign patent applications, 851 registered foreign designs and 177 pending foreign designs. Some of these patents, patent applications and designs relate to significant aspects and features of our products. Of our patents, 8 United States patents and 33 foreign patents are due to expire in the next five years, with 2 foreign patent due to expire in 2010, 18 in 2011, 9 in 2012, and 4 in 2013; and 1 United States patent in 2009, 2 United States patents in 2010, 4 United States patents in 2011, and 1 United States patent in 2013. We believe that the expiration of these patents will not have a material adverse impact on our competitive position.

We rely on a combination of patents, trade secrets, copyrights, trademarks and non-disclosure agreements to protect our proprietary technology and rights.

Litigation may be necessary to enforce patents issued to us, to protect our rights, or to defend third-party claims of infringement by us of the proprietary rights of others. Patent laws regarding the enforceability of patents vary from country to country. Therefore, there can be no assurance that patent issues will be uniformly resolved, or that local laws will provide us with consistent rights and benefits.

Government Regulations

Our products are subject to extensive regulation particularly as to safety, efficacy and adherence to FDA Quality System Regulation, and related manufacturing standards. Medical device products are subject to rigorous FDA and other governmental agency regulations in the United States and similar regulations of foreign agencies abroad. The FDA regulates the introduction, manufacture, advertising, labeling, packaging, marketing, distribution and record keeping for such products, in order to ensure that medical products distributed in the United States are safe and effective for their intended use. In addition, the FDA is authorized to establish special controls to provide reasonable assurance of the safety and effectiveness of most devices. Non-compliance with applicable requirements can result in import detentions, fines, civil penalties, injunctions, suspensions or losses of regulatory approvals,

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recall or seizure of products, operating restrictions, refusal of the government to approve product export applications or allow us to enter into supply contracts, and criminal prosecution.

The FDA requires that a manufacturer introducing a new medical device or a new indication for use of an existing medical device obtain either a Section 510(k) premarket notification clearance or a premarket approval, or PMA, before introducing it into the U.S. market. Our products currently marketed in the United States are marketed in reliance on 510(k) pre-marketing clearances as either Class I or Class II devices. The process of obtaining a Section 510(k) clearance generally requires the submission of performance data and often clinical data, which in some cases can be extensive, to demonstrate that the device is substantially equivalent to a device that was on the market before 1976 or to a device that has been found by the FDA to be substantially equivalent to such a pre-1976 device. As a result, FDA approval requirements may extend the development process for a considerable length of time. In addition, in some cases, the FDA may require additional review by an advisory panel, which can further lengthen the process. The PMA process, which is reserved for new devices that are not substantially equivalent to any predicate device and for high-risk devices or those that are used to support or sustain human life, may take several years and requires the submission of extensive performance and clinical information.

As a medical device manufacturer, all of our domestic and Australian manufacturing facilities are subject to inspection on a routine basis by the FDA. We believe that our design, manufacturing and quality control procedures are in substantial compliance with the FDA s regulatory requirements.

Sales of medical devices outside the United States are subject to regulatory requirements that vary widely from country to country. Approval for sale of our medical devices in Europe is through the CE mark process. Where appropriate, our products are CE marked to the European Union s Medical Device Directive. Under the CE marketing scheme, our products are classified as either Class I or Class II. Our devices are listed in Australia with the Therapeutic Goods Administration, or TGA, and in Canada with Health Canada.

Employees

As of June 30, 2008, we had approximately 2,700 employees or full time consultants, of which approximately 1,050 persons were employed in warehousing and manufacturing, 350 in research and development and 1,300 in sales, marketing and administration. Of our employees and consultants, approximately, 1,100 were located in Australia, 600 in North and South America, 900 in Europe and 100 in Asia.

We believe that the success of our business will depend, in part, on our ability to attract and retain qualified personnel. None of our employees is covered by a collective bargaining agreement. We believe that our relationship with our employees is good.

ITEM 1A RISK FACTORS

Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described below in addition to the other cautionary statements and risks described elsewhere, and the other information contained, in this Report and in our other filings with the SEC, including our subsequent reports on Forms 10-Q and 8-K. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs with material adverse effects on us, our business, financial condition and results of operations could be seriously harmed. In that event, the market price for our common stock will likely decline, and you may lose all or part of your investment.

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Our inability to compete successfully in our markets may harm our business. The markets for our sleep-disordered breathing products are highly competitive and are characterized by frequent product improvements and evolving technology. Our ability to compete successfully depends, in part, on our ability to develop, manufacture and market innovative new products. The development of innovative new products by our competitors or the discovery of alternative treatments or potential cures for the conditions that our products treat could make our products noncompetitive or obsolete. Current competitors, new entrants, academics, and others are trying to develop new devices, alternative treatments or cures, and pharmaceutical solutions to the conditions our products treat.

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

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

We have limited resources to market to approximately the 3,000 U.S. sleep clinics and the more than 6,000 home healthcare dealer branch locations, most of which use, sell or recommend several brands of products. In addition, home healthcare dealers have experienced price pressures as government and third-party reimbursement has declined for home healthcare products, and home healthcare dealers are requiring price discounts and longer periods of time to pay for products purchased from us. We cannot assure you that sleep clinic physicians will continue to prescribe our products, or that home healthcare dealers or patients will not substitute competing products when a prescription specifying our products has been written.

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

Any inability to market effectively our products outside the U.S. could impact our profitability. Approximately half our revenues are generated outside the U.S., in over 70 different countries. Many of these countries have unique regulatory, medical and business environments, which may adversely impact our ability to market our products. If we are unable to market effectively our products outside the U.S., our overall financial performance could decline.

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

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

If we fail to integrate our recent acquisitions with our operations, our business could suffer. During the past four fiscal years we have acquired Western Medical Marketing, PolarMed, Pulmomed, Saime, Hoefner and Resprecare. We continue to integrate these acquisitions into our operations. The integration requires significant efforts from each company and we may find it difficult to integrate the operations as personnel may leave and licensees, distributors or suppliers may terminate their arrangements or demand amended terms to these arrangements. Additionally, our management may have their attention diverted while trying to integrate these companies. If we are not able to successfully integrate the operations, we may not realize the anticipated benefits of these acquisitions.

We are subject to various risks relating to international activities that could affect our overall profitability. We manufacture substantially all of our products outside the U.S. and sell a significant portion of our products in non-U.S. markets. Sales outside North and Latin America accounted for approximately 51% and 47% of our net revenues in the years ended June 30, 2008 and 2007, respectively. We expect that sales within these areas will account for approximately 50% of our net revenues in the foreseeable future. Our sales outside of North America and our operations in Europe, Australia and Asia are subject to several difficulties and risks that are separate and distinct from those we face in our U.S. operations, including:

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

Government and private insurance plans may not adequately reimburse patients for our products, which could result in reductions in sales or selling prices for our products. Our ability to sell our products depends in large part on the extent to which reimbursement for the cost of our products will be available from government health administration authorities, private health insurers and other organizations. These third party payers are increasingly challenging the prices charged for medical products and services and can, without notice, deny coverage for treatments that may include the use of the Company s products. Therefore, even if a product is approved for

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marketing, we cannot assure you that reimbursement will be allowed for the product, that the reimbursement amount will be adequate or, that the reimbursement amount, even if initially adequate, will not subsequently be reduced. For example, in some markets, such as Spain, France and Germany, government reimbursement is currently available for purchase or rental of our products but is subject to constraints such as price controls or unit sales limitations. In other markets, such as Australia, there is currently limited or no reimbursement for devices that treat sleep-disordered breathing conditions. Additionally, future legislation or regulation concerning the healthcare industry or third party or governmental coverage and reimbursement, particularly legislation or regulation limiting consumers reimbursement rights, may harm our business.

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

In addition to reimbursement for our products, our customers depend in part on reimbursement by government and private health insurers for other products. Any proposed reductions in reimbursement, if they occur, may have a material impact on our customers. Any material impact on our customers may indirectly affect our sales to those customers, or the collectibility of receivables we have from those customers.

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

Complying with Food and Drug Administration, or FDA, and other regulations is an expensive and time-consuming process, and any failure to comply could have a materially adverse effect on the Company s business, financial condition, or results of operations. We are subject to various federal, state, local and international regulations regarding our business activities. Failure to comply with these regulations could result in, among other things, recalls of our products, substantial fines and criminal charges against us or against our employees. Furthermore, our products could be subject to recall if the FDA or we determine, for any reason, that our products are not safe or effective. Any recall or other regulatory action could increase our costs, damage our reputation, affect our ability to supply customers with the quantity of products they require and materially affect our operating results. For example, in April 2007 we announced a worldwide voluntary product recall of approximately 300,000 of our S8 flow generators manufactured between July 2004 and May 2006. We determined that there was a remote potential for a short circuit in the power connector. To date,

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no significant property damage or patient injury has been reported. The initial estimated cost of this action was $59.7 million, which we recognized as an expense in the year ended June 30, 2007. An additional $3.1 million expense was recognized during the year ended June 30, 2008, reflecting an increase in return rates and consulting charges. We cannot assure you that this will be the total cost for the recall or that the total cost will not significantly exceed our estimates. Moreover, we cannot predict the effect this recall and the negative publicity associated with the recall will have on our reputation among physicians and customers. Our results of operations could be severely impacted if we have failed to accurately estimate the costs of this product recall, if the FDA requires us to expand the scope of our recall or if physicians and customers cease to recommend and purchase our products as a result of this product recall.

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

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

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

The Company is subject to substantial regulation related to quality standards applicable to its manufacturing and quality processes. Failure by the Company to comply with these standards could have an adverse effect on the Company s business, financial condition, or results of operations. The FDA regulates the approval, manufacturing, and sales and marketing of many of the Company s products in the U.S. Significant government regulation also exists in Canada, Japan, Europe, and other countries in which the Company conducts business. As a device manufacturer, the Company is required to register with the FDA and is subject to periodic inspection by the FDA for compliance with the FDA s Quality System Regulation (QSR) requirements, which require manufacturers of medical devices to adhere to certain regulations, including testing, quality control and documentation procedures. In addition, the federal Medical Device Reporting regulations require the Company to provide information to the FDA whenever there is evidence that reasonably suggests that a device may have caused or contributed to a death or serious injury or, if a malfunction were to occur, could cause or contribute to a death or serious injury. Compliance with applicable regulatory requirements is subject to continual review and is rigorously monitored through periodic inspections by the FDA. In the European Community, the Company is required to maintain certain ISO certifications in order to sell its products and must undergo periodic inspections by notified bodies to obtain and maintain these certifications. Failure to comply with current governmental regulations and quality assurance guidelines could lead to temporary manufacturing shutdowns, product recalls or related field actions, product shortages or delays in product manufacturing. Efficacy or safety

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concerns, an increase in trends of adverse events in the marketplace, and/or manufacturing quality issues with respect to the Company s products could lead to product recalls or related field actions, withdrawals, and/or declining sales.

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

Disruptions in the supply of components from our single source suppliers could result in a significant reduction in sales and profitability. We purchase uniquely configured components for our devices from various suppliers, including some who are single-source suppliers for us. We cannot assure you that a replacement supplier would be able to configure its components for our devices on a timely basis or, in the alternative, that we would be able to reconfigure our devices to integrate the replacement part.

A reduction or halt in supply while a replacement supplier reconfigures its components, or while we reconfigure our devices for the replacement part, would limit our ability to manufacture our devices, which could result in a significant reduction in sales and profitability. We cannot assure you that our inventories would be adequate to meet our production needs during any prolonged interruption of supply.

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

We face the risks that:

- third parties will infringe our intellectual property rights;
- our non-disclosure agreements will be breached;
- we will not have adequate remedies for infringement;
- our trade secrets will become known to or independently developed by our competitors; or

third parties will be issued patents that may prevent the sale of our products or require us to license and pay fees or royalties in order for us to be able to market some of our products.

Litigation may be necessary to enforce patents issued to us, to protect our proprietary rights, or to defend third party claims that we have infringed upon proprietary rights of others. For example, we are currently appealing the decision of a court in Germany that entered judgment in favor of certain

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plaintiffs that had claimed they should be listed as co-inventors on two of our German patent applications. The defense and prosecution of patent claims, including these pending claims, as well as participation in other inter-party proceedings, can be expensive and time consuming, even in those instances in which the outcome is favorable to us. If the outcome of any litigation or proceeding brought against us were adverse, we could be subject to significant liabilities to third parties, could be required to obtain licenses from third parties, could be forced to design around the patents at issue or could be required to cease sales of the affected products. A license may not be available at all or on commercially viable terms, and we may not be able to redesign our products to avoid infringement. Additionally, the laws regarding the enforceability of patents vary from country to country, and we cannot assure you that any patent issues we face will be uniformly resolved, or that local laws will provide us with consistent rights and benefits.

We are subject to potential product liability claims that may exceed the scope and amount of our insurance coverage, which would expose us to liability for uninsured claims. We are subject to potential product liability claims as a result of the design, manufacture and marketing of medical devices. In April 2007 we announced a worldwide voluntary product recall of approximately 300,000 of our S8 flow generators manufactured between July 2004 and May 2006. We determined that there was a remote potential for a short circuit in the power connector. To date, no significant property damage or patient injury has been reported. However, we would likely be subject to product liability claims should any of these devices malfunction, resulting in injury to a patient or damage to property. Any product liability claim brought against us, with or without merit, could result in the increase of our product liability insurance rates. In addition, we would have to pay any amount awarded by a court in excess of our policy limits. Our insurance policies have various exclusions, and thus we may be subject to a product liability claim for which we have no insurance coverage, in which case, we may have to pay the entire amount of any award. We cannot assure you that our insurance coverage will be adequate or that all claims brought against us will be covered by our insurance. Insurance varies in cost and can be difficult to obtain, and we cannot assure you that we will be able to obtain insurance in the future on terms acceptable to us or at all. A successful product liability claim brought against us in excess of our insurance coverage, if any, may require us to pay substantial amounts, which could harm our business.

We are subject to tax audits by various tax authorities in many jurisdictions. From time to time we may be audited by the tax authorities and are still subject to an ongoing German tax audit. Any final assessment resulting from this audit could result in material changes to our past or future taxable income, tax payable or deferred tax assets, and could require us to pay penalties and interest that could materially adversely affect our financial results.

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

- the introduction of new products by us or our competitors;
- the geographic mix of product sales;
- the success of our marketing efforts in new regions;
- changes in third party reimbursement;
- timing of regulatory clearances and approvals;

timing of orders by distributors;

expenditures incurred for research and development;

competitive pricing in different regions;

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seasonality;

the cost and effect of promotional and marketing programs;

the effect of foreign currency transaction gains or losses; and

other activities of our competitors.

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

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

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

Additionally, our Board of Directors has the authority to issue up to 2,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without further vote or action by the stockholders. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control, may discourage bids for our common stock at a premium over the market price of our common stock and may adversely affect the market price of our common stock and the voting and other rights of the holders of our common stock.

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

ITEM 1B UNRESOLVED STAFF COMMENTS

We have received no written comments regarding our periodic or current reports from the staff of the Securities and Exchange Commission that were issued 180 days or more preceding the end of our fiscal year 2008 that remain unresolved.

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ITEM 2 PROPERTIES

Our principal executive offices and U.S. distribution facilities, consisting of approximately 144,000 square feet, are located in Poway (North San Diego County), California in a building we lease. During the year ended June 30, 2007, we completed the construction of our new research and development and office facilities at our existing site in Norwest, Sydney, Australia, which consists of approximately 69,000 square feet. We own our principal manufacturing facility consisting of a 155,000 square foot complex at this same Norwest site in Sydney, Australia and during the year ended June 30, 2008, we completed an extension to this manufacturing facility. We lease a 72,000 square foot facility for manufacture of electronic motors in Chatsworth, California. On July 7, 2005, we purchased a 9.78-acre parcel of land in San Diego for $21.0 million. The new location at Kearney Mesa, San Diego will allow us to develop a new corporate headquarters. We commenced construction of our new corporate headquarters during 2007 and we expect to complete the project in approximately June 2009.

Sales and warehousing facilities are either leased or owned in South Carolina and Oregon, U.S.A.; Abingdon, England; Munich, Germany; Bremen, Germany; Hochstadt, Germany; Lyon, France; Paris, France; Basel, Switzerland; Trollhaettan, Sweden; Vienna, Austria; Helsinki, Finland; Den Haag, Netherlands; Oslo, Norway; Kowloon, Hong Kong; Auckland, New Zealand; Kuala Lumpur, Malaysia and Singapore.

ITEM 3 LEGAL PROCEEDINGS

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

During September and October 2004, we began receiving tax assessment notices for the audit of one of our German subsidiaries by the German tax authorities for the years 1996 through 1998. Certain aspects of these assessment notices are being contested and appealed to the German tax authority office. As the outcome of the appeal cannot be predicted with certainty, any tax issues resolved in a manner not consistent with our expectations may require us to adjust our provision for income tax in the period of resolution.

In February 2007, the University of Sydney commenced legal action in the Federal Court of Australia against us, claiming breach of a license agreement and infringement of certain intellectual property. The claim has been amended to include an allegation of breach of confidentiality. The university is seeking various types of relief, including an injunction against manufacturing, supplying, offering for sale, selling or exporting certain mask devices, payment of license fees, damages or an account of profits, interest, costs and declaration of a constructive trust over and assignment of certain intellectual property. In October 2007, we filed a defense denying the university's claim, as well as a cross-claim against the university seeking an order for rectification of the contract and alleging the university violated the Australian Trade Practices Act. The matter is ongoing. We do not expect the outcome of this matter to have a material adverse effect on our condensed consolidated financial statements.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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PART II

ITEM 5 MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on 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.

	2008		2007	
	High	Low	High	Low
Quarter One, ended September 30	$ 45.40	$ 39.33	$ 48.40	$ 38.52
Quarter Two, ended December 31	53.09	39.65	51.08	39.53
Quarter Three, ended March 31	51.31	39.20	54.26	45.18
Quarter Four, ended June 30	45.32	34.19	51.41	41.25

As of August 17, 2008, there were 51 holders of record of our common stock. We have not paid any cash dividends on our common stock since the 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.

Securities Authorized for Issuance Under Equity Compensation Plans

The information included under Item 12 of Part III of this report, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, is hereby incorporated by reference into this Item 5 of Part II of this report.

Purchases of Equity Securities

The following table summarizes purchases by us of our common stock during the fourth fiscal quarter of the fiscal year ending June 30, 2008:

Period	Total Number of Shares	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	Maximum Number of Shares that May yet be Purchased Under the Plans or Programs[1]
April 2008	Nil	-	-	-
May 2008	354,600	$ 39.35	354,600	354,600
June 2008	1,028,500	$ 36.67	1,028,500	1,028,500
Total	1,383,100	$ 37.36	4,875,618	3,200,382

(1) On June 6, 2002, the Board of Directors authorized us to repurchase up to 8.0 million shares of our outstanding common stock. There is no expiration date for the repurchase of these shares. For the years ended June 30, 2008 and 2007, we repurchased 2,570,700 and 50,000 shares at a cost of $99.5 million and $2.1 million, respectively. At June 30, 2008, we have repurchased a total of 4,875,618 shares at a cost of $143.0 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.

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ITEM 6 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, 2008. The data set forth below should be read in conjunction with the Management s Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and related Notes included elsewhere in this Report. The consolidated statements of operations data for the years ended June 30, 2008, 2007 and 2006 and the balance sheet data as of June 30, 2008 and 2007 are derived from our audited consolidated financial statements included elsewhere in this Report. The consolidated statements of operations data for the years ended June 30, 2005 and 2004 and the balance sheet data as of June 30, 2006, 2005 and 2004 are derived from our audited consolidated financial statements not included herein. Historical results are not necessarily indicative of the results to be expected in the future, and the results for the years presented should not be considered indicative of our future results of operations.

Consolidated Statement of Income Data:	**Years Ended June 30**				
(In thousands, except per share data)	**2008**	**2007**	**2006**	**2005**	**2004**
Net revenues	$ 835,397	$ 716,332	$ 606,996	$ 425,505	$ 339,338
Cost of sales	338,544	272,140	230,101	150,645	122,602
Product recall expenses	3,103	59,700	-	-	-
Gross profit	493,750	384,492	376,895	274,860	216,736
Selling, general and administrative expenses	278,087	237,326	200,168	135,703	104,706
Research and development expenses	60,524	50,106	37,216	30,014	26,169
Donations to research foundations	2,000	-	760	500	500
In-process research and development charge	-	-	-	5,268	-
Amortization of acquired intangible assets	7,791	6,897	6,327	870	-
Restructuring expenses	2,378	-	1,124	5,152	-
Total operating expenses	350,780	294,329	245,595	177,507	131,375
Income from operations	142,970	90,163	131,300	97,353	85,361
Other income (expenses):					
Interest income (expense), net	10,058	6,477	1,320	(808)	(1,683)
Other, net	4,827	1,333	774	81	990
Total other income (expenses)	14,885	7,810	2,094	(727)	(693)
Income before income taxes	157,855	97,973	133,394	96,626	84,668
Income taxes	(47,552)	(31,671)	(45,183)	(31,841)	(27,384)
Net income	$ 110,303	$ 66,302	$ 88,211	$ 64,785	$ 57,284
Basic earnings per share	$ 1.43	$ 0.86	$ 1.22	$ 0.94	$ 0.85
Diluted earnings per share	$ 1.40	$ 0.85	$ 1.16	$ 0.91	$ 0.82
Weighted average:					
Basic shares outstanding	77,378	76,709	72,307	68,643	67,389
Diluted shares outstanding	78,712	78,253	77,162	74,942	70,251

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

Consolidated Balance Sheet Data:	**As of June 30**				
(In thousands)	**2008**	**2007**	**2006**	**2005**	**2004**
Working capital	$ 546,647	$ 466,396	$ 381,284	$ 141,659	$ 222,230
Total assets	1,406,000	1,252,042	1,012,921	774,146	549,151
Long-term debt, less current maturities	93,789	87,648	116,212	58,934	113,250
Total stockholders equity	1,081,775	931,222	738,148	474,065	361,499

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ITEM 7 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Management s discussion and analysis (MD&A) of financial condition and results of operations is intended to help the reader understand the results of operations and financial condition of Resmed Inc. MD&A is provided as a supplement to, and should be read in conjunction with selected financial data and consolidated financial statements and notes, included herein.

We are a leading developer, manufacturer and distributor of medical equipment for treating, diagnosing, and managing sleep-disordered breathing (SDB) and other respiratory disorders. During the fiscal year we continued our efforts in building awareness of the consequences of untreated SDB and to grow our business in this underpenetrated market. In our efforts we have raised awareness through a number of market initiatives which highlighted the increasing link between the potential effect SDB can have on cardiovascular diseases and Type 2 diabetes. In conjunction with these direct efforts we also donated $2.0 million to the ResMed Foundation in the United States during fiscal year 2008. The Foundation s overall mission includes the education of both the public and physicians about the inherent dangers of untreated SDB/OSA, particularly as it relates to cerebrovascular and cardiovascular disease.

We are committed to ongoing investment in research and development and product enhancements. During fiscal year 2008 we invested approximately $60.5 million on research and development activities, which represents 7% of revenue. Since the development of CPAP, we have developed a number of innovative products for SDB and other respiratory disorders including airflow generators, diagnostic products, mask systems, headgear and other accessories. During fiscal year 2008, we were encouraged by the market response to our new full face mask offerings: the Quattro and Liberty; our new nasal pillows mask, the Swift LT; and our next generation nasal mask; the Mirage Micro. We also launched the flow generator S8 II and a new bilevel device, the VPAP Auto. These new offerings will enable us to capitalize on continuing developments in patient needs whilst also positioning us for future growth.

During the year, our industry has seen some significant market developments. Major cardiac associations have begun advocating screening and treating cardiac patients for SDB whilst the International Diabetes Foundation (IDF) has issued a consensus statement recommending the screening of type 2 diabetes patients suspected of sleep apnea. In the U.S. Medicare approved reimbursement of home sleep testing to diagnose patients with obstructive sleep apnea. This ruling will offer patients the option to be assessed through a facility-based test in a lab or through a portable diagnostic test performed in the patient s home. We believe this will increase the diagnostic capacity in the U.S. industry allowing greater access for patients. Several U.S large private insurers have followed suit, and the industry is now well positioned for the next wave of patients seeking diagnosis and treatment.

We reported record financial results in fiscal year 2008, with an increase in net revenue of 17% to $835.4 million compared to fiscal year 2007. Gross profit increased for the year ended June 30, 2008 to $493.8 million from $384.5 million for the year ended June 30, 2007, an increase of $109.3 million or 28%. The increase in gross margin is primarily due to $59.7 million of voluntary product recall expenses that we recognized during the year ended June 30 2007. During the year ended June 30, 2008 we also recognized an additional charge of $3.1 million in relation to the product recall announced in the prior year. Our net income for the year ended June 30, 2008 was $110.3 million or $1.40 per diluted share compared to net income of $66.3 million or $0.85 per diluted share for the year ended June 30, 2007. Excluding the impact of the voluntary product recall expenses, diluted earnings per share for the year ended June 30, 2008 was $1.43, an increase of 4% over the year ended June 30, 2007 of $1.38.

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Total operating cash flow for fiscal year 2008 was $137.8 million, which represents a 51% increase from the year ended June 30, 2007. At June 30, 2008, our cash and cash equivalents totaled $321.1 million. Our total assets increased by 12% to $1.4 billion and our shareholders equity was up 16% to $1.1 billion. During fiscal year 2008, we repurchased 2,570,700 shares at a cost of $99.5 million as part of our approved share buy-back program.

Fiscal Year Ended June 30, 2008 Compared to Fiscal Year Ended June 30, 2007

Net Revenues. Net revenue increased for the year ended June 30, 2008 to $835.4 million from $716.3 million for the year ended June 30, 2007, an increase of $119.1 million or 17%. The increase in net revenue was attributable to an increase in unit sales of our flow generators, masks and accessories and a strong contribution from our new full face masks. Movements in international currencies against the U.S. dollar positively impacted revenues by approximately $42.7 million for the year ended June 30, 2008. Excluding the impact of favorable foreign currency movements, sales for the year ended June 30, 2008 increased by 11% compared to the year ended June 30, 2007.

Net revenue in North and Latin America increased for the year ended June 30, 2008 to $409.6 million from $376.7 million for the year ended June 30, 2007, an increase of $32.9 million or 9%. This growth has been generated by increased public and physician awareness of sleep-disordered breathing and growth generated from our recent product releases including the S8II flow generator, Swift LT nasal pillows mask and Mirage Quattro full-face mask.

Net revenue in markets outside North and Latin America increased for the year ended June 30, 2008 to $425.8 million from $339.6 million for the year ended June 30, 2007, an increase of 25%. This sales growth outside North and Latin America predominantly reflects growth in the overall sleep-disordered breathing market, growth generated from our recent product releases including the S8II flow generator and Mirage Quattro full-face mask and the positive impact from movements of international currencies against the U.S. dollar. Excluding the positive impact from movements of international currencies, international sales grew by 13%.

Sales of flow generators for the year ended June 30, 2008 totaled $418.5 million, an increase of 13% compared to the year ended June 30, 2007, including increases of 3% in North and Latin America and 20% elsewhere. Sales of mask systems, motors and other accessories totaled $416.9 million, an increase of 21%, including increases of 13% in North and Latin America and 35% elsewhere, for the year ended June 30, 2008, compared to the year ended June 30, 2007. We believe these increases primarily reflect growth in the overall sleep-disordered breathing market and contributions from new products.

Gross Profit. Gross profit increased for the year ended June 30, 2008 to $493.8 million from $384.5 million for the year ended June 30, 2007, an increase of $109.3 million or 28%. Gross profit as a percentage of net revenue increased for the year ended June 30, 2008 to 59% from 54% for the year ended June 30, 2007. The increase in gross margin is primarily due to $59.7 million of voluntary product recall expenses that we recognized during the year ended June 30 2007. During the year ended June 30, 2008 we also recognized an additional charge of $3.1 million in relation to the product recall announced in 2007 due to higher than original estimated return rates and consulting charges. Excluding voluntary product recall expenses, gross profit as a percentage of revenue was 59% for the year ended June 30, 2008, which is lower than the year ended June 30, 2007 of 62%. The lower gross margin (excluding the voluntary product recall expense) is primarily due to a general reduction in average selling prices, appreciation of the Australian dollar against the U.S. dollar, partially offset by manufacturing and supply chain improvements.

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Voluntary Product Recall Expenses. On April 23, 2007, we initiated a worldwide voluntary product recall of approximately 300,000 units of our early production S8 flow generators. In these particular units, which were manufactured between July 2004 and May 15, 2006, there was what we considered to be a remote potential for a short circuit in the power supply connector. The initial estimated cost of this recall action was $59.7 million which was recognized as a charge to cost of sales in the condensed consolidated statement of income during the year ended June 30, 2007. During the year ended June 30, 2008 we recognized an additional charge of $3.1 million due to higher than original estimated return rates and consulting charges. At June 30, 2008 the recall accrual was $1.0 million.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased for the year ended June 30, 2008 to $278.1 million from $237.3 million for the year ended June 30, 2007, an increase of $40.8 million or 17%. As a percentage of net revenue, selling, general and administrative expenses for the year ended June 30, 2008 was 33% and is consistent with the year ended June 30, 2007.

The increase in selling, general and administrative expenses was primarily due to an increase in the number of sales and administrative personnel to support our growth, continued infrastructure investment, particularly in our European businesses, stock-based compensation costs and other expenses related to the increase in our sales. The increase in selling, general and administrative expenses was also attributable to net appreciation of international currencies against the U.S. dollar, which added approximately $18.8 million to our expenses for the year ended June 30, 2008, as reported in U.S. dollars. As a percentage of net revenue, we expect our future selling, general and administrative expense to continue in the historical range of 32% to 34%.

Research and Development Expenses. Research and development expenses increased for the year ended June 30, 2008 to $60.5 million from $50.1 million for the year ended June 30, 2007, an increase of $10.4 million or 21%. As a percentage of net revenue, research and development expenses were 7% for the year ended June 30, 2008 and are consistent with the year ended June 30, 2007.

The increase in research and development expenses was primarily due to an increase in the number of research and development personnel, increased charges for consulting fees and an increase in technical assessments incurred to facilitate development of new products. The increase in research and development expenses was also attributable to the net appreciation of international currencies against the U.S. dollar, which added approximately $7.1 million to our expenses for the year ended June 30, 2007, as reported in U.S. dollars. As a percentage of net revenue, we expect our future research and development expense to continue at approximately 7%.

Donations to Foundations. In the years ended June 30, 2008 and 2007, we donated $2.0 million and $Nil, respectively, to the ResMed Foundation in the United States. The Foundations overall mission includes the education of both the public and physicians about the inherent dangers of untreated SDB/OSA, particularly as it relates to cerebrovascular and cardiovascular disease.

Amortization of Acquired Intangible Assets. Amortization of acquired intangible assets for the year ended June 30, 2008 totaled $7.8 million compared to $6.9 million for the year ended June 30, 2007. The increase in amortization expense is attributable to the appreciation of the Euro against the U.S. dollar as the majority of the acquired intangible assets are denominated in Euros.

Restructuring Expenses. Restructuring expenses incurred for the year ended June 30, 2008 were $2.4 million compared to $Nil for the year ended June 30, 2007. Restructuring expenses consisted of expenses associated with our decision to streamline European management, including the closure of part of the European headquarters in Basel, Switzerland and two regional offices in the Netherlands.

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The restructuring expenses mainly comprise employee termination costs, leasehold improvement write-downs and property lease exit costs. We will continue to monitor the progress of this restructure and adjust our business strategies and personnel accordingly to achieve maximum efficiencies and cost savings.

Other Income (Expense), Net. Other income, net for the year ended June 30, 2008 was $14.9 million, an increase of $7.0 million over the year ended June 30, 2007. This was predominantly due to higher interest income on additional cash balances and a $5.9 million gain on the sale of our Poway property. These impacts were partly offset by a $3.2 million impairment write-down of our at cost-method investments.

Income Taxes. Our effective income tax rate decreased to approximately 30.1% for the year ended June 30, 2008 from approximately 32.3% for the year ended June 30, 2007. Our effective income tax rate was impacted by the tax benefit associated with the voluntary product recall expense that was recognized during the years ended June 30, 2008 and 2007. Excluding the impact of voluntary product recall expenses, the effective income tax rate was 30.1% and 31.4% for the years ended June 30, 2008 and 2007, respectively. The reduction in the full year effective tax rate is mainly due to factors such as an increase in the concessional R&D tax claim in Australia and a 10% decrease in the German corporate tax rate. We continue to benefit from the Australian corporate tax rate of 30% and certain Australian research and development tax benefits because we generate the majority of our taxable income in Australia.

Net Income. As a result of the factors above, our net income for the year ended June 30, 2008 was $110.3 million or $1.40 per diluted share compared to net income of $66.3 million or $0.85 per diluted share for the year ended June 30, 2007. The net after tax impact of the voluntary product recall expense of $2.2 million described above resulted in a reduction of diluted earnings per share of $0.03 on an after-tax basis for the year ended June 30, 2008 compared to $41.8 million or $0.53 diluted earnings per share for the year ended June 30, 2007. Excluding the impact of the voluntary product recall expenses, diluted earnings per share for the year ended June 30, 2008 was $1.43, an increase of 4% over the year ended June 30, 2007 of $1.38.

Fiscal Year Ended June 30, 2007 Compared to Fiscal Year Ended June 30, 2006

Net Revenues. Net revenue increased for the year ended June 30, 2007 to $716.3 million from $607.0 million for the year ended June 30, 2006, an increase of $109.3 million or 18%. The increase in net revenue was attributable to an increase in unit sales of our flow generators, masks and accessories. Movements in international currencies against the U.S. dollar positively impacted revenues by approximately $20.5 million for the year ended June 30, 2007. Excluding the impact of favorable foreign currency movements, sales for the year ended June 30, 2007 increased by 15% compared to the year ended June 30, 2006.

Net revenue in North and Latin America increased for the year ended June 30, 2007 to $376.7 million from $321.0 million for the year ended June 30, 2006, an increase of $55.7 million or 17%. This growth has been generated by increased public and physician awareness of sleep-disordered breathing together with our continued investment in our sales force and marketing initiatives. Recent product releases, in particular the Adapt SV, Swift II and Mirage Quattro, have also contributed to our sales growth.

Net revenue in markets outside the Americas increased for the year ended June 30, 2007 to $339.6 million from $286.0 million for the years ended June 30, 2007 and 2006, respectively, an increase of 19%. International sales growth predominantly reflects growth in the overall sleep-disordered breathing market and the positive impact from movements of international currencies against the U.S. dollar. Excluding the positive impact from movements of international currencies, international sales grew by 12%.

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Sales of flow generators for the year ended June 30, 2007 totaled $370.6 million, an increase of 17% compared to the year ended June 30, 2006, including increases of 19% in North and Latin America and 16% elsewhere. Sales of mask systems, motors and other accessories totaled $345.8 million, an increase of 19%, including increases of 16% in North and Latin America and 24% elsewhere, for the year ended June 30, 2007, compared to the year ended June 30, 2006. We believe these increases primarily reflect growth in the overall sleep-disordered breathing market and contributions from new products.

Gross Profit. Gross profit increased for the year ended June 30, 2007 to $384.5 million from $376.9 million for the year ended June 30, 2006, an increase of $7.6 million or 2%. Gross profit as a percentage of net revenue decreased for the year ended June 30, 2007 to 54% from 62% for the year ended June 30, 2006. The decrease in gross margin is primarily due to $59.7 million of voluntary product recall expenses that we recognized during the year ended June 30 2007. Excluding voluntary product recall expenses, gross profit as a percentage of revenue was 62% for the year ended June 30, 2007, which is consistent with the year ended June 30, 2006. Stock-based compensation expenses of $1.1 million have been included in cost of sales for the year ended June 30, 2007 compared to $0.9 million for the year ended June 30, 2006.

Voluntary Product Recall Expenses. On April 23, 2007, we initiated a worldwide voluntary product recall of approximately 300,000 units of our early production S8 flow generators. In these particular units, which were manufactured between July 2004 and May 15, 2006, there is a remote potential for a short circuit in the power supply connector.

The estimated cost of this recall action is $59.7 million which has been recognized as a charge to cost of sales in the condensed consolidated statement of income during the year ended June 30, 2007. At June 30, 2007, we have incurred costs of approximately $16.3 million associated with the product recall. We expect the product recall to continue throughout fiscal year 2008. We cannot assure that the actual costs of the product recall will not differ from the amount we have estimated and recognized in our financial statements.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased for the year ended June 30, 2007 to $237.3 million from $200.2 million for the year ended June 30, 2006, an increase of $37.1 million or 19%. As a percentage of net revenue, selling, general and administrative expenses for the year ended June 30, 2007 was 33% and is consistent with the year ended June 30, 2006. Stock-based compensation expenses of $14.5 million have been included within selling, general and administrative expenses for the year ended June 30, 2007 compared to $12.4 million for the year ended June 30, 2006.

The increase in selling, general and administrative expenses was primarily due to an increase in the number of sales and administrative personnel to support our growth, continued infrastructure investment, particularly in our European businesses, stock-based compensation costs and other expenses related to the increase in our sales. The increase in selling, general and administrative expenses was also attributable to net appreciation of international currencies against the U.S. dollar, which added approximately $9.0 million to our expenses for the year ended June 30, 2007, as reported in U.S. dollars. As a percentage of net revenue, we expect our future selling, general and administrative expense to continue in the historical range of 32% to 34%.

Research and Development Expenses. Research and development expenses increased for the year ended June 30, 2007 to $50.1 million from $37.2 million for the year ended June 30, 2006, an increase of $12.9 million or 35%. As a percentage of net revenue, research and development expenses were 7% for the year ended June 30, 2007 compared to 6% for the year ended June 30, 2006. Stock-based compensation costs of $2.0 million have been included within research and development expenses for both the year ended June 30, 2007 and the year ended June 30, 2006.

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The increase in research and development expenses was primarily due to an increase in the number of research and development personnel, increased charges for consulting fees and an increase in technical assessments incurred to facilitate development of new products. The increase in research and development expenses was also attributable to net appreciation of international currencies against the U.S. dollar, which added approximately $2.4 million to our expenses for the year ended June 30, 2007, as reported in U.S. dollars. As a percentage of net revenue, we expect our future research and development expense to continue in the range of 6% to 7%.

Donations to Foundations. In the years ended June 30, 2007 and 2006, we donated $Nil and $0.8 million, respectively, to the ResMed Foundation in the United States, and the ResMed Foundation in Australia. The Foundations overall mission includes the education of both the public and physicians about the inherent dangers of untreated SDB/OSA, particularly as it relates to cerebrovascular and cardiovascular disease.

Amortization of Acquired Intangible Assets. Amortization of acquired intangible assets for the year ended June 30, 2007 totaled $6.9 million compared to $6.3 million for the year ended June 30, 2006. The increase in amortization expense is mainly attributable to the appreciation of the Euro against the U.S. dollar as the majority of the acquired intangible assets are denominated in Euros. The amortized amounts in 2007 related to acquired intangible assets associated with the acquisitions of Pulmomed, PolarMed, Saime, Hoefner and Resprecare.

Restructuring Expenses. Restructuring expenses incurred for the year ended June 30, 2007 were $Nil compared to $1.1 million for the year ended June 30, 2006. Restructuring expenses for 2006 consisted of restructure charges associated with our integration of the separate operations of ResMed Germany and MAP into a single operating unit. We have completed the relocation of our ResMed Germany operation, previously located in Moenchengladbach, to Munich and associated integration of the back office functions including customer service, logistics and administration.

Other Income (Expense), Net. Other income, net for the year ended June 30, 2007 was $7.8 million, an increase of $5.7 million over the year ended June 30, 2006. This was predominantly due to higher interest income on additional cash balances, lower interest expense due to the reduction in our convertible debt, which was converted into equity during the quarter ended March 31, 2006 and higher foreign currency gains on foreign currency transactions and hedging.

Income Taxes. Our effective income tax rate decreased to approximately 32.3% for the year ended June 30, 2007 from approximately 33.9% for the year ended June 30, 2006. Our effective income tax rate was impacted by the tax benefit associated with the voluntary product recall expense that was recognized during the year ended June 30, 2007. Excluding the impact of voluntary product recall expenses, the effective income tax rate was 31.4% for the year ended June 30, 2007.

The decrease in our effective tax rate from June 30, 2006 is primarily due to the one-time additional income tax expense of $3.5 million, which we incurred during the year ended June 30, 2006, associated with the repatriation of $75 million in dividends received from certain controlled foreign corporations. These dividend payments were made to take advantage of a temporary tax incentive under the American Jobs Creation Act of 2004, which provides an 85% exclusion from U.S. taxable income for qualifying dividends. We continue to benefit from the Australian corporate tax rate of 30% and certain Australian research and development tax benefits because we generate a majority of our taxable income in Australia. Excluding the impact of tax expense associated with the dividend payment in fiscal year 2006, our effective tax rate was 31.2%, which is broadly consistent with our effective tax rate for fiscal year 2007.

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Net Income. As a result of the factors above, our net income for the year ended June 30, 2007 was $66.3 million or $0.85 per diluted share compared to net income of $88.2 million or $1.16 per diluted share for the year ended June 30, 2006. The net after tax impact of the voluntary product recall expense of $41.8 million described above resulted in a reduction of diluted earnings per share of $0.53 on an after-tax basis for the year ended June 30, 2007. Excluding the impact of the voluntary product recall expense, diluted earnings per share was $1.38, an increase of 19% over the year ended June 30, 2006.

Liquidity and Capital Resources

As of June 30, 2008 and June 30, 2007, we had cash and cash equivalents of $321.1 million and $257.8 million, respectively. Working capital was $546.6 million and $466.4 million at June 30, 2008 and June 30, 2007, respectively. The increase in working capital predominantly reflects the growth and profitability of the business during the year.

Inventories at June 30, 2008 increased by $1.0 million or 1% to $158.3 million compared to June 30, 2007 inventories of $157.2 million. The increase in inventories was lower than the increase of 17% in revenues in the year ended June 30, 2008 compared to the year ended June 30, 2007, which reflects an improvement in management of our working capital.

Accounts receivable at June 30, 2008 were $192.2 million, an increase of $24.4 million or 15% over the June 30, 2007 accounts receivable balance of $167.8 million. The increase was lower than the 17% incremental increase in revenues for the year ended June 30, 2008 compared to the year ended June 30, 2007. Accounts receivable days sales outstanding of 72 days at June 30, 2008 decreased by 5 days compared to 77 days at June 30, 2007. Our allowance for doubtful accounts as a percentage of total accounts receivable at June 30, 2008 and 2007 was 2.5% and 2.7%, respectively. The credit quality of our customers remains consistent with our past experience.

During the year ended June 30, 2008, we generated cash of $137.8 million from operations. This was higher than the cash generated from operations for the year ended June 30, 2007 of $91.1 million and was primarily the result of the increase in net income and improved working capital management. During fiscal years 2008 and 2007, we repurchased 2,570,700 and 50,000 shares at a cost of $99.5 million and $2.1 million, respectively.

Capital expenditures for the years ended June 30, 2008 and 2007 aggregated $75.8 million and $77.6 million, respectively. The capital expenditures for the year ended June 30, 2008 primarily reflected construction costs related to the extension of our manufacturing facility in Sydney, Australia, construction of our new corporate headquarters in Kearny Mesa, San Diego, office facilities, computer hardware and software, rental and loan equipment and purchase of production tooling equipment and machinery. As a result of these capital expenditures, our balance sheet reflects net property, plant and equipment of approximately $357.1 million at June 30, 2008 compared to $310.6 million at June 30, 2007.

On July 7, 2005, we purchased a 9.78-acre parcel of land in San Diego for $21.0 million. The new location at Kearny Mesa, San Diego will allow us to develop a new corporate headquarters. We commenced construction of our new corporate headquarters during fiscal 2007 and to date have incurred expenditures of $37.0 million. We estimate additional construction costs of approximately $60 million to complete the project. We drew down an additional $35 million from our revolving loan facility to fund the construction during the year ended June 30, 2008. We expect to complete the project in the final quarter of fiscal 2009 and to fund the remaining project costs through a combination of cash on hand and our undrawn revolving loan facility of $20 million.

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On March 24, 2008, we completed the sale and leaseback of real property in Poway, California, where our principal executive offices and one of our US distribution facilities are located. The net consideration for the sale of this property was $24.7 million in cash and on completion of the sale and leaseback we recognized a gain on sale of $5.9 million within other income. We will lease back the property through a period ending June 30, 2009, and will retain an option to extend the lease term for an additional three months.

Details of contractual obligations at June 30, 2008 are as follows:

		Payments Due by Period					
In $000 s	**Total**	**2009**	**2010**	**2011**	**2012**	**2013**	**Thereafter**
Long-Term Debt	$ 137,089	$ 43,775	$ 43,335	$ 49,979	$ -	$ -	$ -
Operating Leases	47,762	14,044	10,215	7,752	4,368	2,244	9,139
Capital Leases	565	90	90	90	90	90	115
Unconditional Purchase Obligations	74,072	72,078	1,322	649	23	-	-
Total Contractual Cash Obligations	$ 259,488	$ 129,987	$ 54,962	$ 58,470	$ 4,481	$ 2,334	$ 9,254

Details of other commercial commitments at June 30, 2008 are as follows:

		Amount of Commitment Expiration Per Period					
In $000 s	**Total Amounts Committed**	**2009**	**2010**	**2011**	**2012**	**2013**	**Thereafter**
Standby Letters of Credit	$ 42	$ 42	$ -	$ -	$ -	$ -	$ -
Other commercial commitments	1,801	205	26	38	25	-	1,507
Guarantees*	99,764	1,757	1,145	94,636	175	-	2,051
Total Commercial Commitments	$ 101,607	$ 2,004	$ 1,171	$ 94,674	$ 200	$ -	$ 3,558

*The above guarantees mainly relate to security provided as part of our Syndicated Facility Agreement and requirements under contractual obligations with insurance companies transacting with our German subsidiaries.

On March 13, 2006, our wholly-owned subsidiaries ResMed Corp., ResMed Motor Technologies Inc. and ResMed EAP Holdings Inc. entered into a Second Amended and Restated Revolving Loan Agreement with Union Bank of California, N.A. as administrative agent for the Lenders (the Loan Agreement), that provides for a revolving loan of up to $65 million. Payment of principal must be made to reduce the total outstanding principal to $55 million on March 1, 2009; and the entire outstanding principal amount must be repaid in full before March 1, 2011. The outstanding principal amount due under the loan will bear interest at a rate equal to LIBOR plus 0.75% to 1.00% (depending on the applicable leverage ratio). The Loan Agreement contains customary covenants, including certain financial covenants and an obligation that we maintain certain financial ratios, including a maximum ratio of total debt to EBITDA (as defined in the Loan Agreement), a fixed charge coverage ratio, a minimum tangible net worth, and that certain of our subsidiaries maintain a minimum EBITDA and liquidity. We are currently in compliance with all of these covenants. At June 30, 2008 there was $35 million outstanding pursuant to the Loan Agreement.

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On June 8, 2006, our wholly-owned Australian subsidiary, ResMed Limited, entered into a Syndicated Facility Agreement with HSBC Bank Australia Limited as original financier, facility agent and security trustee, that provides for a loan in three tranches.

Tranche A is a EUR 50 million term loan facility that refinances all amounts outstanding under a previous syndicated facility agreement dated May 16, 2005 between ResMed Limited and HSBC Bank Australia Limited, to fund the obligations of our wholly-owned French subsidiary ResMed SA under its agreement to acquire Saime. Tranche A bears interest at a rate equal to LIBOR for deposits denominated in EUR plus a margin of 0.80% or 0.90%, depending on the ratio of the total debt to EBITDA of ResMed Inc. and its subsidiaries, which we refer to as the ResMed Group, for the most recently completed fiscal year for the applicable interest period. Payments of principal must be made to reduce the total outstanding principal amount of Tranche A to EUR 37.75 million on June 30, 2008, EUR 27.5 million on June 30, 2009, EUR 15 million on December 31, 2009, and the entire outstanding principal amount must be repaid in full on June 8, 2011. At June 30, 2008, the Tranche A facility loan had an amount outstanding of EUR 37.8 million, equivalent to approximately U.S. dollars (USD) 59.5 million.

Tranche B is a USD 15 million term loan facility that may only be used for the purpose of financing capital expenditures and other asset acquisitions by the ResMed Group. Tranche B bears interest at a rate equal to LIBOR for deposits denominated in EUR, Australian dollars, USD, or Sterling plus a margin of 0.80% or 0.90%, depending on the ratio of the total debt to EBITDA of the ResMed Group for the most recently completed fiscal year for the applicable interest period. The entire principal amount must be repaid in full on June 8, 2011. At June 30, 2008, the Tranche B facility loan had an amount outstanding of USD 15.0 million.

Tranche C is a USD 60 million term loan facility that may only be used for the purpose of the payment by ResMed Limited of a dividend to ResMed Holdings Limited, which will ultimately be paid to ResMed Inc. Tranche C bears interest at a rate equal to LIBOR for deposits denominated in EUR, Australian dollars or USD plus a margin of 0.70% or 0.80%, depending on the ratio of the total debt to EBITDA of the ResMed Group for the most recently completed fiscal year for the applicable interest period. Payments of principal must be made to reduce the total outstanding principal amount of Tranche C to USD 30 million on December 31, 2007 and the entire outstanding principal amount must be repaid in full by June 8, 2009. At June 30, 2008, the Tranche C facility loan had an amount outstanding of EUR 15.0 million, equivalent to approximately USD 23.6 million.

Simultaneous with the Syndicated Facility Agreement, ResMed Limited entered into a working capital agreement with HSBC Bank Australia Limited for revolving, letter of credit and overdraft facilities up to a total commitment of 6.5 million Australian dollars for one year, and ResMed (UK) Limited entered into a working capital agreement with HSBC Bank plc for a revolving cash advance facility up to a total commitment of 3 million Sterling for one year. At June 30, 2008 the working capital agreement had an amount outstanding of GBP 2.0 million, equivalent to approximately USD 4.0 million.

We expect to satisfy all of our short-term liquidity requirements through a combination of cash on hand, cash generated from operations, our $30 million undrawn revolving line of credit with Union Bank of California and our $8.2 million undrawn facilities with HSBC.

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

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Stock-Based Compensation Costs

We have granted stock options to personnel, including officers and directors, under our 2006 Incentive Award Plan, as amended (the 2006 Plan). These options have expiration dates of seven years from the date of grant and vest over four years. We granted these options with the exercise price equal to the market value as determined at the date of grant. We have also offered to our personnel, including officers and directors, the right to purchase shares of our common stock at a discount under our employee stock purchase plan (ESPP).

As of July 1, 2005, we adopted SFAS 123(R) using the modified prospective method, which requires measurement of compensation expense of all stock-based awards at fair value on the date of grant and recognition of compensation expense over the service period for awards expected to vest. Under this method, the provisions of SFAS 123(R) apply to all awards granted or modified after the date of adoption. In addition, the unrecognized expense of awards not yet vested at the date of adoption, determined under the original provisions of SFAS No. 123 shall be recognized in net income in the periods after adoption. The fair value of stock options is determined using the Black-Scholes valuation model. Such value is recognized as expense over the service period, using the graded-attribution method for stock-based awards granted prior to July 1, 2005 and the straight-line method for stock-based awards granted after July 1, 2005.

The fair value of stock options granted under our stock option plans and purchase rights granted under our ESPP is estimated on the date of the grant using the Black-Scholes option-pricing model, assuming no dividends and the following assumptions:

	Years ended June 30		
	2008	**2007**	**2006**
Stock Options:			
Weighted average grant date fair value	$ 12.87	$ 14.53	$ 12.75
Weighted average risk-free interest rate	2.6-4.6%	4.3-5.1%	3.9-4.5%
Dividend yield	-	-	-
Expected option life in years	4.0-4.8	4.0-5.2	3.9-5.2
Volatility	27-28%	26-30%	28-30%
ESPP Purchase rights:			
Weighted average risk-free interest rate	1.7-5.0%	4.9-5.1%	3.2-4.9%
Dividend yield	-	-	-
Expected option life	6 months	6 months	6 months
Volatility	23-33%	30-41%	29-41%

Expected volatilities are based on a combination of historical volatilities of our stock and the implied volatilities from tradeable options of our stock corresponding to their expected term. We use a combination of the historic and implied volatilities as the additional use of the implied volatilities are more representative of our future stock price trends. The expected life represents the weighted average period of time that options granted are expected to be outstanding giving consideration to vesting schedules and our historical exercise patterns. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option.

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 years 2008, 2007 and 2006. During fiscal years 2008, 2007 and 2006, our consolidated effective tax rate has fluctuated between approximately 30% and approximately 34%. These fluctuations have resulted from, and future effective tax rates will depend upon, numerous

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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 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.

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, deferred tax valuation allowances, contingencies and stock-based compensation costs.

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 consolidated 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 goodwill, intangibles and other long-lived assets. 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

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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 recognize revenues to the extent that we 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.

(7) Stock-Based Compensation. In accordance with SFAS No. 123(R), we measure the compensation of all stock-based awards at fair value on date of grant. Such value is recognized as compensation expense over the service period, net of estimated forfeitures. We estimate the fair value of employee stock options using a Black-Scholes valuation model. The fair value of an award is affected by our stock price on the date of grant as well as other assumptions including the estimated volatility of our stock price over the term of the awards and the estimated period of time that we expect employees to hold their stock options. The risk-free interest rate assumption we use is based

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upon U.S. Treasury yield curve appropriate for the expected life of the awards. Expected volatilities are based on a combination of historical volatilities of our stock and the implied volatilities from tradeable options of our stock corresponding to the expected term of the options. We use a combination of the historic and implied volatilities as the addition of the implied volatility is more representative of our future stock price trends. In order to determine the estimated period of time that we expect employees to hold their stock options, we have used historical rates by employee groups. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results differ from our estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. The aforementioned inputs entered into the option valuation model we use to fair value our stock awards are subjective estimates and changes to these estimates will cause the fair value of our stock awards and related stock-based compensation expense we record to vary.

(8) Voluntary Product Recall Expenses. We recognized an accrual for the estimated cost of the voluntary product recall at the time the liability was probable and the related expenses could be reasonably estimated. The amount of this accrual was determined taking into consideration the future probable expenses directly related to the product recall including expected return rates for the affected units, unit replacement costs, legal, consulting, logistical and administrative expenses. Should actual product recall costs differ from our estimated costs or should we receive additional feedback from our ongoing discussions with regulatory bodies, revisions to our estimated product recall accrual may be required.

(9) Income Tax. We have adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48 Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109 (FIN 48) on July 1, 2007. In accordance with FIN 48 we assess our income tax positions and record tax benefits for all years subject to examination based upon management s evaluation of the facts, circumstances, and information available at the reporting date. For those tax positions where it is more likely than not that a tax benefit will be sustained, we have recorded the largest amount of tax benefit with a greater than 50 percent likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements

Recently Issued Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised), Business Combinations (SFAS No. 141(R)). Under the requirements of SFAS No. 141(R), the acquiring entity will be required to recognise all assets and liabilities acquired in a transaction at their acquisition date fair value. SFAS No. 141(R) will also change the accounting treatment for specific transactions such as the recognition of contingent liabilities, the recognition of capitalized in-process research and development, restructuring costs, the treatment of acquisition related transaction costs and changes in the income tax valuation allowances. SFAS No. 141(R) is effective for business combinations for which the acquisition date is on or after July 1, 2009, with early adoption prohibited. The adoption of this standard will not impact our current financial statements but we are assessing the potential impact that the adoption of this standard will have on our future financial statements.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements An amendment of ARB No. 51 (SFAS No. 160). SFAS No. 160 outlines the accounting and reporting requirements for non-controlling interests in consolidated financial statements such as recognizing non-controlling interests as a component of consolidated stockholder s equity separate from the parent equity and net income attributable to non-controlling interests be identified and shown separately on the face of the consolidated income statement. SFAS No. 160 also revises the accounting for increases and decreases in a parent s controlling interest. SFAS No. 160 is

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effective for fiscal years and interim periods within those years, beginning after December 15, 2008, with early adoption prohibited. We do not believe the adoption of this standard will have a material impact on our financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement 133 (SFAS No. 161). SFAS No. 161 requires disclosure of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cashflows. SFAS No. 161 is effective for fiscal years and interim periods within those years, beginning after November 15, 2008. We do not believe the adoption of this standard will have a material impact on our financial statements.

In June 2007, the FASB ratified EITF No. 07-3, Accounting for Nonrefundable Advanced Payments for Goods or Services received for Use in Future Research and Development Activities (EITF No. 07-3). EITF No. 07-3 requires that non-refundable advance payments for goods and services that will be used or rendered for future research and development activities should be deferred and capitalized. These amounts should be expensed as the related goods are delivered or the related services are performed. EITF No. 07-3 is effective for fiscal years beginning after December 15, 2007. We do not believe the adoption of this standard will have a material impact on our financial statements.

In September 2006, the FASB issued FASB No. 157, Fair Value Measurements (FASB 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. FASB 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not believe the adoption of this standard will have a material impact on our financial statements.

In February 2007, FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159), which allows entities to account for most financial instruments at fair value rather than under other applicable generally accepted accounting principles (GAAP), such as historical cost. The accounting results in the instrument being marked to fair value every reporting period with the gain or loss from a change in fair value recorded in the income statement. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We do not believe the adoption of this standard will have a material impact on our financial statements.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET AND BUSINESS RISKS

Foreign Currency Market Risk

Our reporting currency is the U.S. dollar, although the financial statements of our non-U.S. subsidiaries are maintained in their respective local currencies. We transact business in various foreign currencies, including a number of major European currencies as well as the Australian dollar. We have significant foreign currency exposure through both our Australian manufacturing activities and international sales operations.

We have established a foreign currency hedging program using purchased currency options to hedge foreign-currency-denominated financial assets, liabilities and manufacturing expenditures. The goal of this hedging program is to economically guarantee or lock-in the exchange rates on our foreign currency exposures denominated in Euro s and the Australian dollar. Under this program, increases or decreases in our foreign-currency-denominated financial assets, liabilities, and firm commitments are partially offset by gains and losses on the hedging instruments. We have determined our hedge

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program to be a non-effective hedge as defined under SFAS No. 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.

The table below provides information about our foreign currency derivative financial instruments and presents the information in U.S. dollar equivalents. The table summarizes information on instruments and transactions that are sensitive to foreign currency exchange rates, including foreign currency call options held at June 30, 2008. The table presents the notional amounts and weighted average exchange rates by contractual maturity dates for our foreign currency derivative financial instruments. These notional amounts generally are used to calculate payments to be exchanged under the options contracts.

				Fair Value Assets / (Liabilities) As of June 30	
(In thousands except exchange rates)	**FY 2009**	**FY 2010**	**Total**	**2008**	**2007**
Foreign Exchange Call Options					
(Receive AUD$/Pay U.S.$)					
Option amount	$109,000	$30,000	$139,000	$4,493	$3,558
Average contractual exchange rate	AUD $ 1 = USD 0.8946	AUD $ 1 = USD 0.9637	AUD $ 1 = USD 0.9087		
(Receive AUD$/Pay GBP$)					
Option amount	$14,948	$2,990	$17,937	$381	$82
Average contractual exchange rate	AUD $ 1 = GBP 0.4872	AUD $ 1 = GBP 0.5120	AUD $ 1 = GBP 0.4912		
(Receive AUD$/Pay Euro)					
Option amount	$9,455	$14,182	$23,637	$143	$209
Average contractual exchange rate	AUD $ 1 = Euro 0.6657	AUD $ 1 = Euro 0.6409	AUD $ 1 = Euro 0.6506		

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The table below provides information (in U.S. dollars) on our foreign-currency-denominated financial assets by legal entity functional currency as of June 30, 2008 (in thousands):

	Foreign Currency Financial Assets										
	Australian Dollar (AUD)	US Dollar (USD)	Euro (EUR)	Great Britain Pound (GBP)	Canadian Dollar (CAD)	Singapore Dollar (SGD)	New Zealand Dollar (NZD)	Swedish Krona (SEK)	Swiss Franc (CHF)	Sth African Rand (ZAR)	Norwegian Kroner (NOK)
AUD Functional Currency Entities:											
Assets	$ -	$ 97,330	$ 102,735	$ 10,452	-	$ 985	$ 1,288	$ 856	$ 3,655	-	$ 1,255
Liability	-	(28,726)	(93,952)	(6,371)	-	(101)	(425)	(8)	(633)	-	(143)
Net Total	-	68,604	8,783	4,081	-	884	863	848	3,022	-	1,112
USD Functional Currency Entities:											
Assets	75,812	-	-	-	3,111	-	-	-	-	-	-
Liability	-	-	-	-	-	-	-	-	-	-	-
Net Total	75,812	-	-	-	3,111	-	-	-	-	-	-
EURO Functional Currency Entities:											
Assets	7,834	1	-	1,198	-	-	-	-	-	-	-
Liability	-	(102)	-	(1,936)	-	-	-	(5)	(9)	-	(1)
Net Total	7,834	(101)	-	(738)	-	-	-	(5)	(9)	-	(1)
GBP Functional Currency Entities:											
Assets	-	537	20,958	-	-	-	-	-	-	1,261	-
Liability	-	-	(9,455)	-	-	-	-	-	-	-	-
Net Total	-	537	11,503	-	-	-	-	-	-	1,261	-
CHF Functional Currency Entities:										-	
Assets	-	256	20	5	-	-	-	-	-	-	-
Liability	-	(3)	(276)	(2)	-	-	-	-	-	-	-
Net Total	-	253	(256)	3	-	-	-	-	-	-	-
CNY Functional Currency Entities:											
Assets	-	233	-	-	-	-	-	-	-	-	-
Liability	-	-	-	-	-	-	-	-	-	-	-
Net Total	-	233	-	-	-	-	-	-	-	-	-
NOK Functional Currency Entities:											
Assets	-	-	-	-	-	-	-	-	-	-	-
Liability	-	(26)	(185)	(82)	-	-	-	(141)	(4)	-	-
Net Total	-	(26)	(185)	(82)	-	-	-	(141)	(4)	-	-
SEK Functional Currency Entities:											
Assets	-	-	-	-	-	-	-	-	-	-	-

Liability	-	(70)	(137)	(77)	-	-	-	-	(3)	-	(286)
Net Total	-	(70)	(137)	(77)	-	-	-	-	(3)	-	(286)
JPY Functional Currency Entities:											
Assets	-	-	-	-	-	-	-	-	-	-	-
Liability	-	(31)	-	-	-	-	-	-	-	-	-
Net Total	-	(31)	-	-	-	-	-	-	-	-	-

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Interest Rate Risk

We are exposed to risk associated with changes in interest rates affecting the return on our cash and cash equivalents and debt. At June 30, 2008, we had total long-term debt, including the current portion of those obligations, of $137.7 million. All of this debt is subject to variable interest rates. A hypothetical 10% change in interest rates during the year ended June 30, 2008, would not have a material impact on pretax income. We have no interest rate hedging agreements.

Credit Market Risk

At June 30, 2008, we held a number of investment securities in Aaa rated auction securities with various maturities between July 2039 and November 2047. These investments had regular roll-over or auction dates at which time the interest rates were re-set or the investments were redeemed for cash. During the year ended June 30, 2008, we experienced failed auctions with respect to these investments due to the current liquidity issues surrounding the domestic and global capital markets. We continue to earn interest on these investments in accordance with the contract until the next auction occurs. In the event we need to access funds invested in these auction rate securities, we may not be able to liquidate these securities at the fair value recorded on June 30, 2008 until a future auction of these securities is successful or a buyer is found outside of the auction process; however, we believe the current lack of liquidity of these investments is temporary due to the current market conditions and our intention to hold these investments until there is an overall improvement in global credit markets. Accordingly we have reclassified these securities from current to non-current assets and recognised a charge of $0.4 million to comprehensive income within shareholder s equity to reflect the fair market value of these securities at June 30, 2008.

Additionally, based on our ability to access our cash and cash equivalents, expected operating cash flows, and other sources of cash, we do not anticipate the current lack of liquidity on these investments will affect our ability to operate the business in the ordinary course.

ITEM 8 CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item is incorporated herein by reference to the financial statements set forth in Item 15 of Part IV of this report, Exhibits and Consolidated Financial Statement Schedules.

a) Index to Consolidated Financial Statements

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b) Supplementary Data

Quarterly Financial Information (unaudited) The quarterly results for the years ended June 30, 2008 and 2007 are summarized below (in thousands, except per share amounts):

2008	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
Net revenues	$ 185,740	$ 202,679	$ 211,827	$ 235,151	$ 835,397
Gross profit	111,777	121,331	126,558	134,084	493,750
Net income/(loss)	24,125	26,861	29,684	29,633	110,303
Basic earnings per share	$ 0.31	$ 0.35	$ 0.38	$ 0.38	$ 1.43
Diluted earnings per share	$ 0.30	$ 0.34	$ 0.38	$ 0.38	$ 1.40

2007	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
Net revenues	$ 163,605	$ 178,428	$ 182,990	$ 191,309	$ 716,332
Gross profit	101,296	111,758	54,232	117,206	384,492
Net income/(loss)	24,999	28,995	(15,365)	27,673	66,302
Basic earnings per share	$ 0.33	$ 0.38	($ 0.20)	$ 0.36	$ 0.86
Diluted earnings per share	$ 0.32	$ 0.37	($ 0.20)	$ 0.35	$ 0.85

Note: 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.

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A CONTROLS AND PROCEDURES

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

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2008. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2008.

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

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Management s Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. The Company s internal control over financial reporting includes those policies and procedures that:

(i) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company s internal control over financial reporting as of June 30, 2008. Management based this assessment on criteria for effective internal control over financial reporting described in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management s assessment included an evaluation of the design of ResMed Inc. s internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

Based on our assessment and those criteria, management has concluded that the Company did maintain effective internal control over financial reporting as of June 30, 2008.

KPMG LLP, independent registered public accounting firm, who audited and reported on the consolidated financial statements of ResMed, Inc. included in this report, has issued an attestation report on the effectiveness of internal control over financial reporting.

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RESMED INC. AND SUBSIDIARIES

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

ResMed Inc.:

We have audited ResMed Inc. s internal control over financial reporting as of June 30, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). ResMed Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, including the accompanying *Management s Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risks. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, ResMed Inc. maintained, in all material respects, effective internal control over financial reporting as of June 30, 2008, based on criteria established in *Internal Control Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ResMed Inc. and subsidiaries as of June 30, 2008 and 2007, and the related consolidated statements of income, stockholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended June 30, 2008, and our report dated

August 27, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
San Diego, California
August 27, 2008

ITEM 9B OTHER INFORMATION

None.

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PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this Item is herein incorporated by reference from our definitive Proxy Statement for our November 20, 2008, Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after June 30, 2008.

The Company has filed, as exhibits to this Annual Report on Form 10-K for the year ended June 30, 2008, the certifications of its Chief Executive Officer and Chief Financial Officer required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

On November 24, 2007 the Company submitted to the New York Stock Exchange the Annual CEO Certification required pursuant to Section 303A.12(a) of the New York Stock Exchange Listed Company Manual.

ITEM 11 EXECUTIVE COMPENSATION

Information required by this Item is herein incorporated by reference from our definitive Proxy Statement for our November 20, 2008, Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after June 30, 2008.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this Item is herein incorporated by reference from our definitive Proxy Statement for our November 20, 2008, Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after June 30, 2008.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this Item is herein incorporated by reference from our definitive Proxy Statement for our November 20, 2008, Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after June 30, 2008.

ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this Item is herein incorporated by reference from our definitive Proxy Statement for our November 20, 2008, Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after June 30, 2008.

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PART IV

ITEM 15 EXHIBITS AND CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this report:

(a)	Consolidated Financial Statements and Schedule The consolidated financial statements and schedule of the Company and its consolidated subsidiaries are set forth in the Index to Consolidated Financial Statements under Item 8 of this report.
(b)	Exhibit Lists
3.1	First Restated Certificate of Incorporation of Registrant, as amended [15]
3.2	Third Restated By-laws of Registrant [12]
3.3	Fourth Amended and Restated Bylaws of ResMed Inc. [17]
4.1	Form of certificate evidencing shares of Common Stock [1]
4.3	Indenture dated as of June 20, 2001, between ResMed Inc. and American Stock Transfer & Trust Company [5]
4.4	Registration Rights Agreement dated as of June 20, 2001, by and between ResMed Inc., Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Deutsche Banc Alex Brown Inc., William Blair & Company, L.L.C., Macquarie Bank Limited and UBS Warburg LLC [5]
4.5	Registration Rights Agreement dated May 14, 2002 between ResMed Inc. and Leslie Hoffman [6]
10.1*	1995 Stock Option Plan [1]
10.2*	1997 Equity Participation Plan [3]
10.3	Licensing Agreement between the University of Sydney and ResMed Ltd dated May 17, 1991, as amended [1]
10.5	Loan Agreement between the Australian Trade Commission and ResMed Ltd dated May 3, 1994 [1]
10.6	Lease for 10121 Carroll Canyon Road, San Diego CA 92131-1109, USA [4]
10.7	Sale and Leaseback Agreements for 97 Waterloo Rd, North Ryde, Australia [5]
10.8*	Employment Agreement dated May 14, 2002, between Servo Magnetics Inc. and Leslie Hoffman [6]
10.9	Agreement for the purchase of Lot 6001, Norwest Business Park, Baulkham Hills, Australia [6]
10.10*	2003 Employee Stock Purchase Plan [7]
10.11	Loan Agreement between ResMed Limited and HSBC Bank Australia Limited [11]
10.12	Securities Sale Agreement Financiere Ace S.A.S. dated as of May 4, 2005 [11]
10.13	First Amended and Restated Loan Agreement, dated as of November 1, 2005, by and among ResMed Corp., ResMed EAP Holdings Inc. and Union Bank of California, N.A. [8]
10.14	Security Agreement, dated as of November 1, 2005, by and between ResMed EAP Holdings Inc. and Union Bank of California, N.A. [8]

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10.15	Continuing Guaranty, dated as of November 1, 2005, by and between ResMed Corp. and ResMed EAP Holdings Inc and Union Bank of California, N.A. [8]
10.16	Commercial Promissory Note, dated as of November 1, 2005, made by ResMed Corp. and ResMed EAP Holdings Inc. [8]
10.17	Commercial Promissory Note, dated as of November 1, 2005, made by ResMed Corp. and ResMed EAP Holdings Inc. [8]
10.18	Second Amended and Restated Revolving Loan Agreement, dated as of March 13, 2006, among ResMed Corp., Motor Technologies Inc., ResMed EAP Holdings Inc. and Union Bank of California, N.A. [9]
10.19	Syndicated Facility Agreement, dated as of June 8, 2006, by and between ResMed Limited and HSBC Bank Australia Limited [10]
10.20	Deed of Guarantee and Indemnity, dated as of June 8, 2006, by and among HSBC Bank Australia Limited, ResMed Limited, ResMed SAS, ResMed GmbH & Co. KG, ResMed (UK) Limited and Take Air Medical Handels-GmbH [10]
10.21	Deed of Guarantee and Indemnity, dated as of June 8, 2006, by and among HSBC Bank Australia Limited, ResMed Inc., ResMed Corp. and ResMed Limited [10]
10.22	Working Capital Agreement, dated as of June 8, 2006, by and among ResMed (UK) Limited and HSBC Bank plc [10]
10.23	Working Capital Agreement, dated as of June 8, 2006, by and among ResMed Limited and HSBC Bank Australia Limited [10]
10.24*	ResMed Inc. 2006 Incentive Award Plan [16]
10.25*	Amendment No. 1 to the ResMed Inc. 2006 Incentive Award Plan [13]
10.26*	2006 Grant agreement for Board of Directors [13]
10.27*	2006 Grant agreement for Executive Officers [15]
10.28*	2006 Grant agreement for Australian Executive Officers [15]
10.29*	Form of Executive Agreement [14]
10.30	Second Amendment to Second Amended and Restated Revolving Loan Agreement dated January 28, 2008 [18]
10.31	Lease Agreement between ResMed Corp. and Poway Danielson, LP [19]
21.1	Subsidiaries of the Registrant
23.1	Independent Registered Public Accounting Firm s Consent and Report on Schedule
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Management contract or compensatory plan or arrangement

[1] Incorporated by reference to the Registrant s Registration Statement on Form S-1 (No. 33-91094) declared effective on June 1, 1995.

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(2) Incorporated by reference to the Registrant s Registration Statement on Form 8-A12G filed on April 25, 1997.

(3) Incorporated by reference to the Registrant s 1997 Proxy Statement.

(4) Incorporated by reference to the Registrant s Report on Form 10-K dated June 30, 1998.

(5) Incorporated by reference to the Registrant s Report on Form 10-K for the year ended June 30, 2001.

(6) Incorporated by reference to the Registrant s Report on Form 10-K for the year ended June 30, 2002.

(7) Incorporated by reference to the Registrant s 2003 Definitive Proxy Statement dated October 13, 2007.

(8) Incorporated by reference to the Registrant s Form 8-K dated November 8, 2005.

(9) Incorporated by reference to the Registrant s Form 8-K dated March 13, 2006.

(10) Incorporated by reference to the Registrant s Form 8-K dated June 8, 2006.

(11) Incorporated by reference to the Registrant s Report on Form 10-K for the year ended June 30, 2005.

(12) Incorporated by reference to the Registrant s Report on Form 8-K dated February 23, 2007.

(13) Incorporated by reference to the Registrant s Report on Form 10-Q for the quarter ended December 31, 2006.

(14) Incorporated by reference to the Registrant s Report on Form 8-K dated July 9, 2007.

(15) Incorporated by reference to the Registrant s Report on Form 10-K for the year ended June 30, 2007

(16) Incorporated by reference to the Registrant s Report on Form 8-K dated November 9, 2006.

(17) Incorporated by reference to the Registrants Report on Form 8-K filed on December 14, 2007

(18) Incorporated by reference to the Registrants Report on Form 8-K filed on February 6, 2008.

(19) Incorporated by reference to the Registrants Report on Form 8-K filed on March 27, 2008.

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RESMED INC. AND SUBSIDIARIES

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, 2008 and 2007, and the related consolidated statements of income, stockholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended June 30, 2008. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule II. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting 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, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2008, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ResMed Inc. s internal control over financial reporting as of June 30, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated August 27, 2008, expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

San Diego, California

August 27, 2008

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ResMed Inc. and Subsidiaries

Consolidated Balance Sheets

June 30, 2008 and 2007

(In thousands, except share and per share data)

	June 30, 2008	June 30, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 321,078	$ 257,792
Investment securities (note 4)	-	19,950
Accounts receivable, net of allowance for doubtful accounts of $4,935 and $4,704 at June 30, 2008 and 2007, respectively	192,200	167,821
Inventories, net (note 5)	158,251	157,204
Deferred income taxes (note 14)	31,355	42,109
Income taxes receivable	17,115	7,952
Prepaid expenses and other current assets	19,241	15,971
Total current assets	739,240	668,799
Non-current assets:		
Property, plant and equipment, net of accumulated depreciation of $208,446 and $154,559 at June 30, 2008 and 2007, respectively (note 7)	357,057	310,580
Goodwill (note 8)	234,647	206,778
Other intangibles (note 8)	46,771	46,575
Deferred income taxes (note 14)	16,162	9,206
Other assets	7,508	10,104
Investment Securities (note 4)	4,615	-
Total non-current assets	666,760	583,243
Total assets	$ 1,406,000	$ 1,252,042
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 56,308	$ 53,039
Accrued expenses (notes 9 and 20)	61,338	98,324
Deferred revenue	26,133	18,865
Income taxes payable	3,799	3,410
Deferred income taxes (note 14)	1,150	415
Current portion of long-term debt (note 10)	43,865	28,350
Total current liabilities	192,593	202,403
Non-current liabilities:		
Deferred income taxes (note 14)	18,333	18,297
Deferred revenue	15,673	12,472
Long-term debt (note 10)	93,789	87,648
Income taxes payable	3,837	-
Total non-current liabilities	131,632	118,417
Total liabilities	324,225	320,820

Commitments and contingencies (notes 17, 18 and 19)	-	-
Stockholders equity: (note 12)		
Preferred stock, $0.01 par value, 2,000,000 shares authorized; none issued	-	-
Common stock, $0.004 par value, 200,000,000 shares authorized; issued and outstanding 75,975,031 at June 30, 2008 and 77,617,450 at June 30, 2007 (excluding 4,875,618 and 2,304,918 shares held as Treasury stock respectively)	304	311
Additional paid-in capital	468,346	421,701
Retained earnings	548,343	436,954
Treasury stock, at cost	(142,987)	(43,497)
Accumulated other comprehensive income (note 6)	207,769	115,753
Total stockholders equity	1,081,775	931,222
Total liabilities and stockholders equity	$ 1,406,000	$ 1,252,042

See accompanying notes to consolidated financial statements.

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RESMED INC. AND SUBSIDIARIES

Consolidated Statements of Income

Years Ended June 30, 2008, 2007 and 2006

(In thousands, except per share data)

	June 30, 2008	June 30, 2007	June 30, 2006
Net revenues	$ 835,397	$ 716,332	$ 606,996
Cost of sales	338,544	272,140	230,101
Voluntary product recall expenses (note 20)	3,103	59,700	-
Gross profit	493,750	384,492	376,895
Operating expenses:			
Selling, general and administrative	278,087	237,326	200,168
Research and development	60,524	50,106	37,216
Donations to research foundations	2,000	-	760
Amortization of acquired intangible assets	7,791	6,897	6,327
Restructuring expenses (note 11)	2,378	-	1,124
Total operating expenses	350,780	294,329	245,595
Income from operations	142,970	90,163	131,300
Other income (expenses):			
Interest income (expense), net	10,058	6,477	1,320
Other, net (note 13)	4,827	1,333	774
Total other income (expenses), net	14,885	7,810	2,094
Income before income taxes	157,855	97,973	133,394
Income taxes (note 14)	47,552	31,671	45,183
Net income	$ 110,303	$ 66,302	$ 88,211
Basic earnings per share	$ 1.43	$ 0.86	$ 1.22
Diluted earnings per share (note 2-j)	$ 1.40	$ 0.85	$ 1.16
Basic shares outstanding	77,378	76,709	72,307
Diluted shares outstanding	78,712	78,253	77,162

See accompanying notes to consolidated financial statements.

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RESMED INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity and Comprehensive Income

Years ended June 30, 2008, 2007 and 2006

(In thousands)

	Common Stock			Treasury Stock					Comprehensive
	Shares	Amount	Additional Paid-in Capital	Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	Income
Balance, June 30, 2005	72,357	$ 280	$ 179,865	(2,255)	$ (41,405)	$ 282,441	$ 52,884	$ 474,065	
Common stock issued on exercise of options (note 12)	1,805	7	30,790					30,797	
Common stock issued on employee stock purchase plan (note 12)	126	1	3,755					3,756	
Tax benefit from exercise of options			10,107					10,107	
Common stock issued on conversion of convertible subordinated notes	3,738	15	113,235					113,250	
FAS123(R) stock-based compensation costs			15,712					15,712	
Comprehensive income:									
Net income						88,211		88,211	$ 88,211
Other comprehensive income:									
Foreign currency translation adjustments							2,250	2,250	2,250
Comprehensive income/(loss)									$ 90,461
Balance, June 30, 2006	78,026	$ 303	$ 353,464	(2,255)	$ (41,405)	$ 370,652	$ 55,134	$ 738,148	
Common stock issued on exercise of options (note 12)	1,747	7	32,672					32,679	
Common stock issued on employee stock purchase plan (note 12)	148	1	5,388					5,389	
Treasury stock purchases				(50)	(2,092)			(2,092)	
Tax benefit from stock options exercised			12,682					12,682	
FAS123(R) stock-based compensation costs			17,495					17,495	
Comprehensive income (note 6):									
Net income						66,302		66,302	66,302
Other comprehensive income:									
Foreign currency translation adjustments							60,619	60,619	60,619
Comprehensive income/(loss)									$ 126,921
Balance, June 30, 2007	79,921	$ 311	$ 421,701	(2,305)	$ (43,497)	$ 436,954	$ 115,753	$ 931,222	
Common stock issued on exercise of options (note 12)	787	3	16,294					16,297	
Common stock issued on employee stock purchase plan (note 12)	143	1	5,546					5,547	
Treasury stock purchases		(11)		(2,571)	(99,490)			(99,501)	
Tax benefit from exercise of options			4,058					4,058	
			20,747					20,747	

FAS123(R) stock-based compensation costs									
Comprehensive income:									
Net income						110,303		110,303	110,303
Cumulative adjustment on implementation of FIN 48 (note 14)						1,086		1,086	
Other comprehensive income:									
Foreign currency translation adjustments							92,401	92,401	92,401
Unrealised temporary impairment on available-for-sale securities							(385)	(385)	(385)
Comprehensive income/(loss)									$ 202,319
Balance, June 30, 2008	80,851	$ 304	$ 468,346	(4,876)	$ (142,987)	$ 548,343	$ 207,769	$ 1,081,775	

See accompanying notes to consolidated financial statements.

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RESMED INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2008, 2007 and 2006

(In thousands)

	June 30, 2008	June 30, 2007	June 30, 2006
Cash flows from operating activities:			
Net income	$ 110,303	$ 66,302	$ 88,211
Adjustments to reconcile net income to net cash provided by operating activities:			
Voluntary product recall expenses	3,103	59,700	-
Depreciation and amortization	59,320	47,948	40,970
Provision for warranties	(1,125)	1,542	1,890
Deferred income taxes	8,883	(18,900)	(11,915)
Foreign currency options revaluation	(4,029)	(1,091)	3,796
Amortization of deferred borrowing costs	165	193	649
Stock-based compensation costs	20,741	17,505	15,305
Tax benefit from stock options exercised	(3,813)	(12,398)	(9,753)
Gain on sale and leaseback of real property	5,917	-	-
Write-down of cost-method investments	3,250	-	1,156
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable, net	(16,083)	(25,612)	(28,287)
Inventories, net	9,605	(30,467)	(25,041)
Prepaid expenses and other current assets	10,642	(12,035)	(2,432)
Accounts payable, accrued expenses, income taxes and other liabilities	(69,043)	(1,581)	24,479
Net cash provided by operating activities	137,836	91,106	99,028
Cash flows from investing activities:			
Purchases of property, plant and equipment	(75,779)	(77,556)	(102,749)
Proceeds from disposal of property, plant and equipment	24,711	-	-
Capitalized interest	(1,233)	(412)	(1,100)
Purchases of investment securities	(6,500)	(21,950)	(2,000)
Proceeds from sale of maturing investment securities	21,450	2,000	2,002
Patent registration costs	(5,639)	(3,965)	(3,115)
Proceeds from disposal of business assets and contracts	2,542	-	-
Business acquisitions, net of cash acquired of $Nil ($Nil in 2007 and $262 in 2006)	(856)	(1,912)	(10,526)
Purchases of foreign currency options	(2,049)	(1,622)	(2,386)
Proceeds from exercise of foreign currency options	5,500	-	-
Net cash used in investing activities	(37,853)	(105,417)	(119,874)
Cash flows from financing activities:			
Proceeds from issuance of common stock, net	21,627	38,260	34,389
Repayment of assumed borrowings from acquisitions	-	-	(2,195)
Repayment of borrowings	(36,640)	(20,060)	(46,308)
Proceeds from borrowings, net of borrowing costs	44,000	9,590	102,128
Tax benefit from stock option exercises	3,813	12,398	9,753
Purchases of treasury stock	(96,557)	(2,092)	-
Net cash (used in) provided by financing activities	(63,757)	38,096	97,767

Effect of exchange rate changes on cash	27,060	14,463	438
Net increase in cash and cash equivalents	63,286	38,248	77,359
Cash and cash equivalents at beginning of the year	257,792	219,544	142,185
Cash and cash equivalents at end of the year	$ 321,078	$ 257,792	$ 219,544
Supplemental disclosure of cash flow information:			
Income taxes paid, net of refunds	$ 42,151	$ 65,643	$ 44,873
Interest paid, net of capitalized interest	5,520	5,426	4,566
Fair value of assets acquired in acquisitions	$ -	$ -	$ 11,517
Liabilities assumed	-	-	(6,816)
Goodwill on acquisition	856	1,588	5,553
Acquisition costs accrued	-	324	(1,279)
Acquisition costs paid	-	-	1,813
Cash paid for acquisition, including acquisition costs	$ 856	$ 1,912	$ 10,788

See accompanying notes to consolidated financial statements.

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RESMED INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Organization and Basis of Presentation

ResMed Inc. (referred to herein as we , us , our or the Company) is a Delaware corporation formed in March 1994 as a holding company for the ResMed Group. Through our subsidiaries, we design, manufacture and market equipment for the diagnosis and treatment of sleep-disordered breathing and other respiratory disorders, including obstructive sleep apnea. Our manufacturing operations are located in Australia, Germany, France and the United States of America. Major distribution and sales sites are located in the United States of America, Germany, France, the United Kingdom, Switzerland, Australia and Sweden.

(2) Summary of Significant Accounting Policies

(a) Basis of Consolidation

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

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

(b) Revenue Recognition

Revenue on product sales is generally recorded upon shipment, at which time title transfers to the customer. Revenue on product sales which require customer acceptance is not recorded until acceptance is received. Royalty revenue from license agreements is recorded when earned. Service revenue received in advance from service contracts is initially deferred and recognized ratably over the life of the service contract. Revenue received in advance from rental unit contracts is initially deferred and recognized ratably over the life of the rental contract. Revenue from sale of marketing or distribution rights is initially deferred and recognized ratably as revenue over the life of the contract. Freight charges billed to customers are included in revenue. All shipping and handling related expenses are charged to cost of sales. Taxes assessed by government authorities that are imposed on and concurrent with revenue-producing transactions, such as sales and value added taxes, are reported on a net basis (excluded from revenue).

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

(c) Cash and Cash Equivalents

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

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ResMed Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(2) Summary of Significant Accounting Policies, Continued

(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. Maintenance and repairs are charged to expense as incurred.

We capitalize interest in connection with the construction of facilities. Actual construction costs incurred relating to facilities under active development qualify for interest capitalization. Interest capitalization ceases when the construction of a facility is complete and available for use. During the years ended June 30, 2008 and 2007, we capitalized $1.2 million and $0.4 million, respectively, of interest relating to such construction costs.

(f) Intangible Assets

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

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

(g) Goodwill

We conducted our annual review for goodwill impairment during the final quarter of fiscal 2008. 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 estimated discounted cash flows. Our goodwill impairment review 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.

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RESMED INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Summary of Significant Accounting Policies, Continued

(h) Foreign Currency

The consolidated financial statements of our non U.S. subsidiaries, whose functional currencies are other than U.S. dollars, are translated into U.S. dollars for financial reporting purposes. Assets and liabilities of non U.S. subsidiaries whose functional currencies are other than the U.S. dollar are translated at period end exchange rates, and revenue and expense transactions are translated at average exchange rates for the period. Cumulative translation adjustments are recognized as part of comprehensive income, as detailed in Note 6, and are included in accumulated other comprehensive income in the consolidated balance sheets until such time as the subsidiary is sold or substantially or completely liquidated. Gains and losses on transactions denominated in other than the functional currency of the entity are reflected in operations.

(i) Research and Development

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

(j) Earnings per Share

We calculate earnings per share in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per Share (SFAS 128), as amended by SFAS No. 123(R), Share Based Payments (SFAS 123(R)). SFAS 128 requires the presentation of basic earnings per share and diluted earnings per share. Basic earnings per share is computed by dividing the net income available to common stockholders by the weighted average number of shares of common stock outstanding. For purposes of calculating diluted earnings per share, net income is adjusted for the after-tax amount of interest associated with convertible debt, and the denominator includes both the weighted average number of shares of common stock outstanding and the number of dilutive common stock equivalents such as stock options and convertible notes.

The weighted average shares used to calculate basic earnings per share were 77,378,000, 76,709,000 and 72,307,000 for the years ended June 30, 2008, 2007 and 2006, 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 and the assumed conversion of our convertible notes. Stock options had the effect of increasing the number of shares used in the calculation (by application of the treasury stock method) by 1,334,000, 1,544,000 and 2,346,000 for the years ended June 30, 2008, 2007 and 2006, respectively. The assumed conversion of our convertible notes had the effect of increasing the number of shares used in the calculation by Nil, Nil and 2,509,000 for the years ended June 30, 2008, 2007 and 2006, respectively. During the year ended June 30, 2006 all of our convertible notes were converted to common stock.

Stock options totaling 4,944,000, 3,164,000 and 1,103,000 for the years ended June 30, 2008, 2007 and 2006, respectively, were not included in the computation of diluted earnings per share as the effect of exercising these options would have been anti-dilutive.

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RESMED INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Summary of Significant Accounting Policies, Continued

Basic and diluted earnings per share for the years ended June 30, 2008, 2007 and 2006 are calculated as follows (in thousands except per share data):

	2008	2007	2006
Numerator:			
Net income	$ 110,303	$ 66,302	$ 88,211
Adjustment for interest and deferred borrowing costs, net of income tax effect [1]	-	-	1,660
Net income, used in calculating diluted earnings per share	$ 110,303	$ 66,302	$ 89,871
Denominator:			
Basic weighted-average common shares outstanding	77,378	76,709	72,307
Effect of dilutive securities:			
Stock options	1,334	1,544	2,346
Convertible subordinated notes	-	-	2,509
Diluted potential common shares	1,334	1,544	4,855
Diluted weighted average shares	78,712	78,253	77,162
Basic earnings per share	$ 1.43	$ 0.86	$ 1.22
Diluted earnings per share [1]	$ 1.40	$ 0.85	$ 1.16

[1] Diluted earnings per share has been calculated after adjusting the numerator (net income) by $Nil, $Nil and $1,660,000 for the years ended June 30, 2008, 2007 and 2006, respectively, for the effect of assumed conversion of our convertible notes, and the related reduction in interest expense, net of tax.

(k) Financial Instruments

The carrying value of financial instruments, such as cash and cash equivalents, accounts receivable and accounts payable, approximate their fair value because of their short-term nature. The carrying value of long-term debt approximates the fair value as the principal amounts outstanding are subject to variable interest rates that are based on market rates which are regularly reset. 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.

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ResMed Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(2) Summary of Significant Accounting Policies, Continued

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 in 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, 2008 and June 30, 2007 was $5.0 million and $3.8 million, respectively, which represents the positive fair value of options held by us.

We held foreign currency option contracts with notional amounts totaling $180.6 million and $139.3 million at June 30, 2008 and 2007, respectively, to hedge foreign currency items. These contracts mature at various dates before June 2010.

(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) Investment 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, 2008 and 2007, the investments in debt securities were classified on the accompanying consolidated balance sheets as investment securities-available-for-sale.

(o) Warranty

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

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ResMed Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(2) Summary of Significant Accounting Policies, Continued

Changes in the liability for product warranty for the year ended June 30, 2008 are as follows (in thousands):

Balance at July 1, 2007	$ 7,040
Warranty accruals for the year ended June 30, 2008	2,471
Warranty costs incurred for the year ended June 30, 2008	(3,596)
Foreign currency translation adjustments	948
Balance at June 30, 2008	$ 6,863

(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 exceeds 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, 2008 and June 30, 2007 was $1.4 million and $4.6 million, respectively. We review the carrying value of these investments at each balance sheet date. In fiscal 2008 and 2007, we recognized $3.2 million and $Nil, respectively, of impairment losses related to our cost-method investments, which include investments in privately held service companies, research companies and public companies. The expense associated with this impairment has been included in the other income (expense) line within the consolidated statements of income. Of the amount written down, $2.8 million was in relation to an investment in a publicly traded company. The duration of the impairment in this company had exceeded 24 months and during its most recent published results the company recognized a significant impairment write-down in its goodwill. The remaining $0.4 million of the recognized impairment was in respect to an investment in a private company which ceased operations during the year ended June 30, 2008. We have determined, subsequent to the impairment charge, that the fair value of our remaining investments exceed their carrying values.

(r) Stock-based Employee Compensation

We have granted stock options to personnel, including officers and directors, under our 2006 Incentive Award Plan, as amended (the 2006 Plan). These options have expiration dates of seven years from the date of grant and vest over four years. We granted these options with the exercise price equal to the market value as determined at the date of grant. We have also offered to our personnel, including officers and directors, the right to purchase shares of our common stock at a discount under our employee stock purchase plan (ESPP).

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RESMED INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Summary of Significant Accounting Policies, Continued

As of July 1, 2005, we adopted SFAS 123(R) using the modified prospective method, which requires measurement of compensation expense of all stock-based awards at fair value on the date of grant and recognition of compensation expense over the service period for awards expected to vest. Under this method, the provisions of SFAS 123(R) apply to all awards granted or modified after the date of adoption. In addition, the unrecognized expense of awards not yet vested at the date of adoption, determined under the original provisions of SFAS No. 123 shall be recognized in net income in the periods after adoption. The fair value of stock options is determined using the Black-Scholes valuation model. Such value is recognized as expense over the service period, using the graded-attribution method for stock-based awards granted prior to July 1, 2005 and the straight-line method for stock-based awards granted after July 1, 2005.

The fair value of stock options granted under our stock option plans and purchase rights granted under our ESPP is estimated on the date of the grant using the Black-Scholes option-pricing model, assuming no dividends and the following assumptions:

	Years ended June 30		
	2008	**2007**	**2006**
Stock Options:			
Weighted average grant date fair value	$ 12.87	$ 14.53	$ 12.75
Weighted average risk-free interest rate	2.6-4.6%	4.3-5.1%	3.9-4.5%
Dividend yield	-	-	-
Expected option life in years	4.0 - 4.8	4.0-5.2	3.9-5.2
Volatility	27-28%	26-30%	28-30%
ESPP Purchase rights:			
Weighted average risk-free interest rate	1.7-5.0%	4.9-5.1%	3.2-4.9%
Dividend yield	-	-	-
Expected option life	6 months	6 months	6 months
Volatility	23-33%	30-41%	29-41%

Expected volatilities are based on a combination of historical volatilities of our stock and the implied volatilities from tradeable options of our stock corresponding to the expected term of the options. We use a combination of the historic and implied volatilities as the addition of the implied volatility is more representative of our future stock price trends. While there is a tradeable market of options on our common stock less emphasis is placed on the implied volatility of these options due to the relative low volumes of these traded options and the difference in the terms compared to our employee options. The expected life represents the weighted average period of time that options granted are expected to be outstanding giving consideration to vesting schedules and our historical exercise patterns. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option.

(3) New Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised), Business Combinations (SFAS No. 141(R)). Under the requirements of SFAS No. 141(R), the acquiring entity will be required to recognise all assets and liabilities acquired in a transaction at their acquisition date fair value. SFAS No. 141(R) will also change the accounting treatment for specific transactions such as the recognition of contingent liabilities, the recognition of capitalized in-process research and development, restructuring costs, the treatment of acquisition related transaction costs and changes in the income tax valuation

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ResMed Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(3) New Accounting Pronouncements, Continued

allowances. SFAS No. 141(R) is effective for business combinations for which the acquisition date is on or after July 1, 2009, with early adoption prohibited. The adoption of this standard will not impact our current financial statements but we are assessing the potential impact that the adoption of this standard will have on our future financial statements.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements An amendment of ARB No. 51 (SFAS No. 160). SFAS No. 160 outlines the accounting and reporting requirements for non-controlling interests in consolidated financial statements such as recognizing non-controlling interests as a component of consolidated stockholder s equity separate from the parent equity and net income attributable to non-controlling interests be identified and shown separately on the face of the consolidated income statement. SFAS No. 160 also revises the accounting for increases and decreases in a parent s controlling interest. SFAS No. 160 is effective for fiscal years and interim periods within those years, beginning after December 15, 2008, with early adoption prohibited. We do not believe the adoption of this standard will have a material impact on our financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement 133 (SFAS No. 161). SFAS No. 161 requires disclosure of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cashflows. SFAS No. 161 is effective for fiscal years and interim periods within those years, beginning after November 15, 2008. We do not believe the adoption of this standard will have a material impact on our financial statements.

In June 2007, the FASB ratified EITF No. 07-3, Accounting for Nonrefundable Advanced Payments for Goods or Services received for Use in Future Research and Development Activities (EITF No. 07-3). EITF No. 07-3 requires that non-refundable advance payments for goods and services that will be used or rendered for future research and development activities should be deferred and capitalized. These amounts should be expensed as the related goods are delivered or the related services are performed. EITF No. 07-3 is effective for fiscal years beginning after December 15, 2007. We do not believe the adoption of this standard will have a material impact on our financial statements.

In September 2006, the FASB issued FASB No. 157, Fair Value Measurements (FASB 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. FASB 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not believe the adoption of this standard will have a material impact on our financial statements.

In February 2007, FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159), which allows entities to account for most financial instruments at fair value rather than under other applicable generally accepted accounting principles (GAAP), such as historical cost. The accounting results in the instrument being marked to fair value every reporting period with the gain or loss from a change in fair value recorded in the income statement. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We do not believe the adoption of this standard will have a material impact on our financial statements.

(4) Investment Securities

The estimated fair value of investment securities as of June 30, 2008 and June 30, 2007 are $4.6 million and $20.0 million, respectively. These investments are diversified among high credit quality investment grade

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ResMed Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(4) Investment Securities, Continued

securities in accordance with our investment policy. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

At June 30, 2008, our investment securities of $4.6 million were held in Aaa rated auction securities with various maturities between July 2039 and November 2047. These investments had regular roll-over or auction dates at which time the interest rates were re-set or the investments were redeemed for cash. During the year ended June 30, 2008, we experienced failed auctions with respect to these investments. We continue to earn interest on these investments in accordance with the contract until the next auction occurs. In the event we need to access funds invested in these auction rate securities, we may not be able to liquidate these securities at the fair value recorded on June 30, 2008 until a future auction of these securities is successful or a buyer is found outside of the auction process. Based on our ability to access our cash and cash equivalents, expected operating cash flows, and other sources of cash, we do not anticipate the current lack of liquidity on these investments will affect our ability to operate the business in the ordinary course. We believe the current lack of liquidity of these investments is temporary and have recognised a charge of $0.4 million to comprehensive income. Additionally given the current market liquidity conditions and our intention to hold these investments until there is an overall improvement in global credit markets we have reclassified these securities from current to non-current assets.

(5) Inventories

Inventories, net were comprised of the following as of June 30, 2008 and 2007 (in thousands):

	2008	2007
Raw materials	$ 58,768	$ 68,911
Work in progress	2,165	1,965
Finished goods	97,318	86,328
	$ 158,251	$ 157,204

(6) Comprehensive Income

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

	2008	2007
Net income	$ 110,303	$ 66,302
Foreign currency translation gains	$ 92,401	60,619
Unrealised loss on investment securities	(385)	-
Comprehensive income	$ 202,319	$ 126,921

We do not provide for U.S. income taxes on foreign currency translation adjustments since we do not provide for such taxes on undistributed earnings of foreign subsidiaries.

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ResMed Inc. and Subsidiaries

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(7) Property, Plant and Equipment