

2000

Annual Report

“Leadership goes much deeper than merely selling the most products. Respironics is focused on becoming the leading worldwide resource in providing innovative products and unique programs that help manage and treat patients with sleep disorders and cardiopulmonary diseases. As that resource, we are committed to helping clinicians treat their patients, providers manage and grow their businesses, and patients improve their quality of life. Our vision is clear and concise. Our people know what they must do for our company to succeed.”

— James W. Liken

People. Products. Programs.

LETTER

to our

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Shareholders:

The past year confirms that Respiroics is not waiting to see what the future holds — we said that we would invent our future and we did. We have reclaimed our position as an innovative leader in manufacturing medical devices for obstructive sleep apnea and cardiopulmonary disease.

The year did not lack aggressive actions. The decision to refocus the organization around the needs of the customer triggered substantial activity. The results: four divisions, a programs-oriented marketing strategy, a centralized distribution center, and consolidation and updating of manufacturing facilities.

One fundamental principle guided Respiroics' performance during fiscal year 2000 — **innovate new products and programs designed around our customers' needs and the markets we serve.**

I believe that the shareholders of Respiroics have benefited greatly from the important steps, taken one year ago, to realign our company. We stepped up to the challenge, implemented the right solutions, and are now positioned for years of growth.

PEOPLE

The last year has not gone by without its challenges. It is my belief that a positive attitude is necessary to succeed in life. In fiscal year 2000, the associates of Respiroics chose to have a positive outlook. I want to thank all of the Respiroics associates who did not lose faith in our company and put their best efforts forward. Their hard work and determination is reflected in the company's performance.

PRODUCTS

Our focus on innovation will continue to move Respiroics ahead of its competition. Early this year our Homecare Division introduced the Encore® SmartCard™ — a revolutionary product that helps medical professionals record and monitor patient compliance information. The nasal masks in Respiroics' Comfort Series™ are lighter and smaller and increase patient comfort throughout therapy. The AsthmaMentor™, a product of our Asthma and Allergy Division, allows patients to actively monitor their treatment and participate in the management of their condition. The Esprit® Ventilator, introduced by the Hospital Division, offers flexibility in treatment, making it ideal for use in any setting, from hospital to sub-acute care facilities. We understand what is important to our customers and their patients and will continue to innovate breakthrough technologies that position Respiroics as the leader in its industry.

PROGRAMS

In addition to providing innovative products, we believe that helping our customers — healthcare professionals — to grow their business and increase cost effectiveness is a key factor in Respiroics' success. Last November, at the industry's largest annual home care conference, Respiroics introduced its new programs-oriented marketing approach — **Power Programs™ for Providers**. While each program incorporates sound business practices with sensible clinical decision-making, it also provides training and ongoing support to accompany our innovative products. The **Power Programs** uniquely distinguish Respiroics from its competition.

PERFORMANCE

During the first quarter of fiscal year 2000, I had to deliver a disappointing message to the shareholders of Respiroics — the company would not meet analysts' expectations for the quarter. This was certainly the low point of my first year with Respiroics. In the second quarter we achieved \$91.7 million in revenues — I could feel the enthusiasm growing throughout the company. It was not a surprise when we achieved record sales of \$97.8 million in the third quarter — the company was gaining momentum to carry it through the fiscal year end.

We closed fiscal 2000 with fourth quarter revenues of \$98 million and \$368.2 million for the year compared with \$357.6 million in fiscal year 1999. Net income for the year was \$25.4 million or \$0.85 per diluted share, versus last year's \$27.5 million or \$0.86 per diluted share, excluding special charges in both years. The details of our financial statements are provided in the pages that follow.

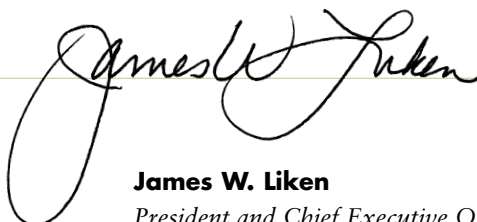
At the beginning of this fiscal year, it would have been easy to take a pessimistic view on the future of Respiroics. The analysts who follow our company had issued conservative ratings on our stock and were not recommending aggressive purchases of our shares. In addition, during the month of December our stock had reached an all-time low of \$7.50 per share.

Since that day in December, we have made substantial progress. By the end of the fiscal year, the majority of the analysts who follow our company had raised their ratings and issued favorable recommendations on our stock. In addition, our stock value has more than doubled. We believe this is a direct reflection of the industry's, the financial community's, and our shareholders' restored confidence in the company.

FUTURE

Looking to the future, we recognize the importance of increasing our international presence, exploring new market opportunities, introducing additional therapies to further differentiate us from our competition, and building a strong brand image. We have demonstrated our ability to make change and we are prepared to move forward swiftly.

I am optimistic about the future of this company. We have the right **people**. We are creating new and innovative **products**. We are introducing unique **programs** to manage diseases. I am confident that we have the power to succeed and to make fiscal year 2001 the best year ever.



James W. Liken
President and Chief Executive Officer

2000

Financial Highlights

Respironics, Inc. and Subsidiaries

Year Ended June 30	2000	1999	1998	1997	1996
<i>Amounts in thousands except per share data</i>					
Net Sales	\$368,184	\$357,571	\$351,576	\$314,542	\$236,471
Net Income (Loss)	5,752⁽¹⁾	23,061 ⁽²⁾	(1,825) ⁽³⁾	26,425 ⁽³⁾	21,486
Diluted Earnings (Loss) per Share	0.19⁽¹⁾	0.72 ⁽²⁾	(0.06) ⁽³⁾	0.82 ⁽³⁾	0.71
Diluted Shares Outstanding	30,004	31,956	32,098	32,352	30,285
Working Capital	155,095	155,336	137,550	110,566	135,564
Long-Term Obligations	108,095	99,374	69,316	48,985	33,035
Total Assets	353,002	343,585	318,320	294,769	232,924

⁽¹⁾ Includes the impact of restructuring charges, a special addition to the allowance for doubtful accounts and a one-time reduction in income tax expense. These costs reduced net income by \$19,611,000 (\$0.66 per share) in fiscal year 2000.

⁽²⁾ Includes the impact of a special addition to the allowance for doubtful accounts and restructuring charges. These costs reduced net income by \$4,449,000 (\$0.14 per share) in fiscal year 1999.

⁽³⁾ Includes the impact of merger costs and costs associated with an unsolicited offer to acquire Healthdyne. These costs reduced net income by \$29,095,000 (\$0.88 per share) in fiscal year 1998 and \$1,289,000 (\$0.04 per share) in fiscal year 1997.

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NET SALES

dollars in millions

1996	236.5
1997	314.5
1998	351.6
1999	357.6
2000	368.2

EARNINGS PER SHARE

dollars

1996	.71
1997	.82 ⁽³⁾
1998	(.06) ⁽³⁾
1999	.72 ⁽²⁾
2000	.19 ⁽¹⁾

SHAREHOLDERS' EQUITY

dollars in millions

1996	162.6
1997	191.1
1998	200.8
1999	194.5
2000	191.1

⁽¹⁾ Includes the impact of restructuring charges, a special addition to the allowance for doubtful accounts, and a one-time reduction in income tax expense which totaled \$0.66 per share in fiscal year 2000.

⁽²⁾ Includes the impact of a special addition to the allowance for doubtful accounts and restructuring charges which totaled \$0.14 per share in fiscal year 1999.

⁽³⁾ Includes the impact of merger costs and costs associated with an unsolicited offer to acquire Healthdyne which totaled \$0.88 per share in fiscal year 1998 and \$0.04 per share in fiscal year 1997.

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

RESULTS OF OPERATIONS

Net sales for fiscal year 2000 were \$368,184,000, representing a 3% increase in sales over the \$357,571,000 recorded in fiscal year 1999. Fiscal year 1999 net sales represented a 2% increase in net sales over the \$351,576,000 recorded in fiscal year 1998. Increases in unit and dollar sales for the Company's obstructive sleep apnea therapy devices (the Company's largest product line) and oxygen concentrator devices, as well as increases in the sales of masks and other accessories, helped to drive the increase in sales for the current fiscal year, offset by decreases in unit and dollar sales of the Company's non-invasive ventilatory support products for home use. These product lines, along with ventilation devices and oxygen systems, comprise the major part of the Company's homecare division established as part of the July 1999 restructuring plan. Sales of the Company's hospital products also increased during the current fiscal year, including unit and dollar increases for the Company's Vision™ and Espirit® ventilators. The fiscal year 1998 to fiscal year 1999 increase was due primarily to increases in unit and dollar sales of the Company's obstructive sleep apnea therapy products, non-invasive ventilatory support products for hospital use, and oxygen concentrator products, offset by decreases in unit and dollar sales of the Company's non-invasive ventilatory support products for home use.

6 Sales for the second half of fiscal year 1998 and all of fiscal years 1999 and 2000 were adversely impacted by decreases in sales of the Company's non-invasive ventilatory support products for use in the home compared to prior year levels. These sales decreases were caused at first by uncertainty in the market concerning government insurance coverage guidelines for the home use of these products in the United States and the corresponding reduction in purchases of these units by the Company's dealer customers pending resolution of the coverage guidelines. Government policymakers issued a draft coverage policy for non-invasive ventilation in July 1998 that was more restrictive than had been expected. The Company, along with trade and medical associations, other device manufacturers, and homecare dealers, filed formal comments as permitted with the policy makers indicating disagreement with the draft coverage policy. In May 1999, a revised set of coverage guidelines was issued for implementation on October 1, 1999. While several restrictive provisions of the July 1998 draft guidelines were removed and potential changes in reimbursement categories were delayed, the Company believed that these revised guidelines were still overly restrictive relative to patient qualification and administratively burdensome for clinicians and healthcare providers. As a result, the Company continued to work with the government policy makers and Congress to resolve the remaining issues. Several favorable modifications were made to the guidelines, and final guidelines reflecting these modifications were implemented effective October 1, 1999. The Company believes that these guidelines are still overly restrictive relative to patient qualification and administratively burdensome and is continuing to work with government policy makers on these issues. The uncertainty in the market regarding these guidelines and their implementation was particularly significant during fiscal year 2000 as the planned implementation date approached and passed, and the Company's sales for these products were adversely affected.

The Company believes that while the guidelines as implemented are overly restrictive, there is benefit to having certainty in the market regarding coverage for these products and as a result there are opportunities for increased unit sales of non-invasive ventilatory support products. However, selling prices for such units may come under pressure and there may be mix shifts to units with lower average selling prices because of certain patient qualification tests that are required under the guidelines. While the Company is working closely with its dealer customers to develop strategies to reach the appropriate patient population in the context of these new guidelines, it cannot predict with certainty the exact impact the new guidelines will have. For the fiscal year ended June 30, 2000, sales of non-

invasive ventilatory support units for home use in the United States accounted for approximately three percent of total sales, compared to eight percent in fiscal year 1999 and twelve percent in fiscal year 1998. In addition, the Company is also experiencing more general challenges in its marketplace due to the January 1998 reductions in Medicare reimbursement for oxygen therapy, which adversely affected many of the Company's dealer customers.

Also affecting sales for the current fiscal year was a decrease in sales compared to fiscal year 1999 resulting from the impact of the Company's May 1999 decision to change its method of distribution in Germany from direct patient sales to sales through a distributor. As a result of this change, sales decreased in the year to year comparison by approximately \$7,300,000 due to the foregone distributor margin. Excluding this foregone distributor margin, sales in Germany increased 13% for the current fiscal year. Operating expenses in Germany were reduced to help offset this foregone dealer margin.

The Company's gross profit, excluding the impact of restructuring, was 47% of net sales for fiscal year 2000 as compared to 48% and 49% of net sales for fiscal years 1999 and 1998, respectively. The decrease in gross profit percentage for fiscal year 2000 compared to the prior year was primarily due to the foregone dealer margin described above, a shift in sales mix and, to a lesser extent, increased costs related to the Company's distribution and manufacturing restructuring efforts. The decrease in the gross margin percentage for fiscal year 1999 was due primarily to reductions in gross margin in the fourth quarter of that year caused by the change in distribution method for sales in Germany, increased manufacturing overhead expenses and sales mix.

General and administrative expenses, including additions to the allowance for doubtful accounts, were \$48,755,000 (13% of net sales) for fiscal year 2000, \$48,522,000 (14% of net sales) for fiscal year 1999 and \$37,200,000 (11% of net sales) for fiscal year 1998. The fiscal year 2000 general and administrative expenses includes a special addition to the allowance for doubtful accounts of \$4,500,000 (1% of net sales) related to a previously disclosed filing by one of the Company's major customers under Chapter 11 of the U.S. Bankruptcy Code. The Company's total balance due from the customer at the date of the Chapter 11 filing was approximately \$4,500,000. The fiscal year 1999 total shown above includes a special addition of \$5,000,000 (1% of net sales) to the Company's allowance for doubtful accounts. This special addition was made primarily to address accounts receivable remaining uncollected that were generated by Healthdyne Technologies, Inc. ("Healthdyne") prior to its merger with the Company in February 1998. This addition was made in the fourth quarter of fiscal year 1999 as a change in previous estimates resulting from slow collections, aging deterioration and issues affecting customers related to accounts that management expected to collect during fiscal year 1999. The remaining increases in expenses for the periods presented were due primarily to increased information technology department expenses, including depreciation expense on SAP hardware and software, legal fees and other administrative expenses. Partially offsetting these increases in expenses in fiscal year 2000 were lower operating expenses due to the Company's restructuring efforts and decreased expenses in Germany as a result of the Company's May 1999 decision to reduce its direct sales operation in that country as described above. Increased expenses for fiscal year 1999 were partially offset by cost reductions that the Company obtained since the February 1998 merger with Healthdyne.

Sales, marketing and commission expenses were \$62,772,000 (17% of net sales) for fiscal year 2000 as compared to \$60,899,000 (17% of net sales) for fiscal year 1999 and \$65,560,000 (19% of net sales) for fiscal year 1998. The increase in absolute dollars of expense for the current fiscal year were due primarily to increased expenses driven by increased sales and activity levels in the Company's homecare and hospital product lines, partially offset by lower operating expenses due to the Company's restructuring efforts and decreased operating expenses in Germany as a result of the Company's

Management's Discussion and Analysis (continued)

May 1999 decision to reduce its direct sales operation in that country as discussed above. The decrease in these expenses from fiscal year 1998 to fiscal year 1999 was due primarily to the cost reductions that the Company achieved since the February 1998 merger with Healthdyne. See Notes K and N to the Consolidated Financial Statements for more information regarding this merger.

Research and development expenses were \$16,815,000 (5% of net sales) for fiscal year 2000 as compared to \$16,714,000 (5% of net sales) for fiscal year 1999 and \$20,225,000 (6% of net sales) for fiscal year 1998. The increase in absolute dollars of expense for the current fiscal year was due primarily to the timing of various research and development projects. The decrease in these expenses from fiscal year 1998 to fiscal year 1999 was due primarily to the elimination of duplicate product development efforts following the merger with Healthdyne in February 1998. Significant product development efforts are ongoing, and new product launches in all of the Company's major product lines took place in fiscal years 1998, 1999 and 2000 with additional new product launches scheduled for fiscal year 2001. In the current fiscal year, new products such as the Profile™ Lite nasal mask, the Respironics Simplicity™ nasal mask, the Harmony® ST Ventilator, the AsthmaMentor™ and the Encore® SmartCard™ with FOSQ (Functional Outcomes of Sleep Questionnaire) were introduced. Additional development work and clinical trials are being conducted in certain product areas outside the Company's current core products.

In July 1999, the Company announced a major restructuring of its U.S. operations. The major components of the restructuring included the closing of the Westminster, Colorado manufacturing facility, the closing of 19 customer satisfaction centers throughout the United States, the downsizing of the Marietta, Georgia manufacturing facilities, the opening of the Youngwood, Pennsylvania central distribution and repair center, the realignment of the Company into four divisions with a corresponding management realignment, and an approximate 10% workforce reduction associated with the facility changes and the management realignment. The facility changes were completed during fiscal year 2000, and the divisional realignment is currently in place.

During fiscal year 2000, the Company incurred a charge of \$29,200,000 for the restructuring described above. The primary components of these costs were severance and employment related costs (\$6,300,000), asset write-downs to reflect decisions made regarding product, facility and systems rationalization (\$8,900,000), and lease buyouts related to facility rationalizations and other direct expenses of the restructuring (\$14,000,000). Approximately \$8,700,000 of these charges relates to inventory write-offs in connection with product rationalizations and have been reported as a separate component of cost of goods sold. The Company does not expect to incur additional charges related to this restructuring. See the Financial Condition, Liquidity and Capital Resources section of this Management's Discussion and Analysis and Note M to the Consolidated Financial Statements for additional information regarding the restructuring.

During fiscal year 1999, the Company incurred \$2,415,000 in costs related to its May 1999 decision to enter into a new distribution arrangement for sales of its products in Germany. Under the new arrangement, the Company's products are being distributed by an independent dealer in Germany, and the Company's direct sales efforts in that country were significantly reduced. Accordingly, costs were incurred to reduce the Company's German workforce and facilities and such costs have been included in the charge. As a result of this change in distribution, the Company's sales and gross margins in Germany were reduced starting in May 1999 because of the foregone dealer margin; however selling, administrative and distribution costs have been reduced as well.

During fiscal year 1998, the Company incurred \$40,751,000 in costs related to the merger with Healthdyne. The primary components of these costs were direct expenses of the transaction such as

legal and investment banking fees (\$9,500,000), severance and other employment related costs (\$9,500,000) and asset write-downs to reflect decisions made regarding product and operational standardization (inventory, \$11,000,000; other assets, \$8,000,000). See Note N to the Consolidated Financial Statements for additional information regarding merger costs. During fiscal year 1998, the Company also incurred a total of \$650,000 in costs associated with an unsolicited offer by a third party to acquire Healthdyne.

During the fiscal year ended June 30, 2000, the Company reached an agreement with the Internal Revenue Service regarding examinations of federal income tax returns for certain of the Company's U.S. entities for fiscal years 1996 through 1998. Based on this agreement, the Company recorded a one-time reduction in income tax liability and income tax expense of \$1,643,000 during fiscal year 2000. The Company's effective income tax rate from operations (i.e. excluding the impact of the one-time reduction in income tax liability, the restructuring charges, the special additions to the allowance for doubtful accounts and the merger costs described above) was 40% for fiscal years 2000, 1999 and 1998. The Company's effective tax rate for fiscal year 2000 including the impact of the items listed above was 33%. The Company's effective income tax rate for fiscal year 1998 including the impact of the merger charges was 147% because certain of the direct expenses of the merger transaction, such as investment banking and legal fees, were assumed to be non-deductible for income tax purposes.

As a result of the factors described above, the Company's net income (loss) was \$5,752,000 (2% of net sales) or \$0.19 per diluted share for fiscal year 2000 as compared to \$23,061,000 (6% of net sales) or \$0.72 per diluted share for fiscal year 1999 and \$(1,825,000) (1% of net sales) or \$(0.06) per diluted share for fiscal year 1998.

Excluding the impact of the special additions to the allowance for doubtful accounts, restructuring costs, merger costs, the costs associated with the unsolicited offer to acquire Healthdyne and the one-time income tax liability adjustment, the Company's net income was \$25,363,000 (7% of net sales) or \$0.85 per diluted share for fiscal year 2000, \$27,522,000 (8% of net sales) or \$0.86 per diluted share for fiscal year 1999 and \$27,270,000 (8% of net sales) or \$0.82 per diluted share for fiscal year 1998.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company had working capital of \$155,095,000 and \$155,336,000 at June 30, 2000 and 1999, respectively. Net cash provided by operating activities was \$25,107,000 for fiscal year 2000, as compared to \$35,926,000 for fiscal year 1999 and net cash used by operating activities of \$13,042,000 for fiscal year 1998. The deterioration in cash flow from operating activities from fiscal year 1999 to fiscal year 2000 was primarily a result of lower earnings in fiscal year 2000, including the impact of restructuring costs in fiscal year 2000. The improvement in cash flow from operating activities from fiscal year 1998 to fiscal year 1999 was also related primarily to higher earnings in fiscal year 1999, including the impact of restructuring costs incurred in fiscal year 1999 and merger costs incurred in fiscal year 1998.

Net cash used by investing activities was \$28,390,000, \$25,629,000 and \$20,013,000 for fiscal years 2000, 1999 and 1998, respectively. The majority of the cash used by investing activities for all periods represented capital expenditures, including the purchase of leasehold improvements, production equipment, computer hardware and software, and telecommunications and office equipment. In addition, cash used by investing activities in the current fiscal year includes additional purchase price paid for a previously acquired business pursuant to the terms of that acquisition agreement. Positive cash flows from operating activities in fiscal years 2000 and 1999, positive cash flows from

Management's Discussion and Analysis (continued)

financing activities in fiscal years 2000 and 1998, and accumulated cash and short-term investments provided funding for investment activities. See Note K to the Consolidated Financial Statements for additional information regarding these acquisitions. See Notes D and K to the Consolidated Financial Statements for additional information about long-term obligations and acquisition financing.

Net cash provided by financing activities includes borrowings and repayments under the Company's various long-term obligations, proceeds from the issuance of common stock under the Company's stock option plans and the acquisition of treasury stock.

In August 1998, the Company's Board of Directors authorized a stock buyback of up to 1,000,000 shares of the Company's outstanding common stock. In October 1998, the Board of Directors increased the authorization to a total of up to 2,000,000 shares and in March 1999 increased the authorization to a total of up to 3,000,000 shares. In September 1999, the Board of Directors increased the authorization up to the present total of up to 4,000,000 shares. During fiscal year 1999, the Company repurchased, net of share usage, a total of 2,640,000 shares in open market transactions resulting in a net use of cash of \$33,055,000. During fiscal year 2000, the Company repurchased, net of share usage, a total of 1,044,000 shares in open market transactions resulting in a net use of cash of \$9,201,000. Shares that are repurchased are added to treasury shares pending future use and reduce the number of shares outstanding used in calculating earnings per share.

In May 1998, the Company finalized a \$100,000,000 revolving credit facility with a group of commercial banks. This credit facility was initially used to refinance approximately \$55,000,000 of the Company's existing long-term debt with the remaining balance of the facility available for future borrowing. The credit facility has also been used for general corporate purposes, including the stock buyback described above. The revolving credit facility permits borrowings and repayments until its maturity in May 2003. In December 1998, the amount of the revolving credit facility was increased to \$125,000,000. The revolving credit facility is unsecured and contains certain financial covenants with which the Company must comply. The Company is currently in compliance with these covenants. The interest rate on the revolving credit facility is based on a spread over the London Interbank Borrowing Rate ("LIBOR"). As of June 30, 2000, the resulting interest rate on amounts outstanding under the revolving credit facility was approximately 7.50%. See Note D to the Consolidated Financial Statements for additional information about the credit facility.

The Company has not provided a valuation allowance for deferred income tax assets because it has determined that it is more likely than not that such assets can be realized, at a minimum, through carrybacks to prior years in which taxable income was generated.

As previously stated, in July 1999, the Company announced a major restructuring of its U.S. operations that included facility closings and downsizings, a divisional and management realignment, and an approximate ten percent workforce reduction associated with those changes. The restructuring activities have been completed and restructuring charges totaling \$29,200,000 were recorded during the fiscal year ended June 30, 2000. See Note M to the Consolidated Financial Statements for a description of this charge, including the reserve balances relating to the charge that remain at June 30, 2000. The reserves shown for employee severance, lease buyouts and other direct expenses will require corresponding cash expenditures in future periods. The Company does not expect to incur additional restructuring charges for this action. As previously disclosed, annualized savings associated with the restructuring are expected to be approximately \$10,000,000. Savings, primarily as a result of closing a manufacturing facility and 19 customer service centers, began to be realized during the third quarter of fiscal year 2000. These cost savings are expected to positively impact cost of sales, general and administrative expenses, and sales and marketing expenses, and will be offset to some extent by

planned increases in those expenses consistent with expected increases in sales in future periods and the Company's continuing investment in the business.

The Company believes that projected positive cash flow from operating activities, the availability of additional funds under its revolving credit facility (totaling approximately \$20,000,000 at June 30, 2000), and its accumulated cash and short-term investments will be sufficient to meet its current and presently anticipated future needs for fiscal year 2001 for operating activities (including payments against restructuring accruals), investing activities and financing activities (primarily consisting of payments on long-term debt).

YEAR 2000

The Company began its Year 2000 readiness plan in 1998 and completed it during the second quarter of fiscal year 2000. The Year 2000 readiness plan included a review of the Company's core business information systems and technology, the implementation of Year 2000 compliant enterprise-wide resource planning ("ERP") software and reviews of the Company's telecommunications systems, product lines, infrastructure, facilities and embedded systems.

Through September 2000, no major compliance anomalies have occurred. Total costs for the Company's Year 2000 compliance efforts approximated \$11,000,000 and were funded through the Company's operating cash flows. The majority of these costs relate to the ERP system installations and upgrades and have been capitalized and are being charged to expense over the estimated useful life of the associated hardware and software. The remaining costs have been charged directly to expense.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest rates and foreign exchange rates.

Interest Rates The Company's primary interest rate risk relates to its long-term debt obligations. At June 30, 2000, the Company had total long-term obligations, including the current portion of those obligations, of \$109,502,000. Of that amount, \$3,202,000 was in fixed rate obligations and \$106,300,000 was in variable rate obligations. Assuming a 10% increase in interest rates on the Company's variable rate obligations (i.e., an increase from the June 30, 2000 weighted average interest rate of 7.37% to a weighted average interest rate of 8.11%), annual interest expense would be approximately \$784,000 higher based on the June 30, 2000 outstanding balance of variable rate obligations. The Company has no interest rate agreements.

Foreign Exchange Rates A substantial majority of the Company's sales, expenses and cash flows are transacted in U.S. dollars. For the year ended June 30, 2000, sales denominated in currencies other than the U.S. dollar (primarily the German mark, and to a lesser extent, the French franc and the Chinese yuan) totaled \$21,541,000, or approximately 6% of total sales. For the year ended June 30, 2000, pre-tax income denominated in currencies other than the U.S. dollar (primarily the Hong Kong dollar and the German mark) totaled \$1,122,000 excluding restructuring charges, or approximately 3% of total pre-tax income, excluding restructuring and special charges. An adverse change of 10% in exchange rates would have resulted in a decrease in sales of \$2,154,000 and a decrease in net income of \$112,000 for the year ended June 30, 2000. The Company's entities that operate in Germany, France, Hong Kong and China have certain accounts receivable and accounts payable denominated in U.S. dollars in addition to receivable and payable accounts in their home currencies which can act to further mitigate the impact of foreign exchange rate changes. The Company has no significant foreign currency contracts.

Management's Discussion and Analysis (continued)

INFLATION

Inflation has not had a significant effect on the Company's business during the periods discussed.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." As amended by FASB Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133," FASB No. 133 will be required to be adopted as of the first quarter of fiscal year 2001. The Company adopted FASB No. 133 on July 1, 2000. The statement required, among other things, derivative instruments to be recorded at market value, with changes in fair value reflected in earnings to the extent the derivative instruments do not qualify as hedges in accordance with the statement. The Company has evaluated FASB No. 133 and management does not believe the statement will have a material effect on earnings during fiscal year 2001.

In December 1999, the Staff of the Securities and Exchange Commission released Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition," to provide guidance on the recognition, presentation and disclosure of revenues in financial statements. This statement will become effective during fiscal year 2001.

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES REFORM ACT OF 1995

The statements contained in this Annual Report, specifically those contained in "Management's Discussion and Analysis of Results of Operations and Financial Condition," along with statements in reports filed with the Securities and Exchange Commission, external documents and oral presentations which are not historical are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21B of the Securities Exchange Act of 1934, as amended. These forward-looking statements represent the Company's present expectations or beliefs concerning future events. The Company cautions that such statements are qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements. Results actually achieved may differ materially from expected results included in these statements. Those factors include, but are not limited to, the following: foreign currency fluctuations, regulations and other factors affecting operations and sales outside the United States including potential future effects of the change in sovereignty of Hong Kong, customer consolidation and concentration, increasing price competition and other competitive factors in the sale of products, interest rate fluctuations, intellectual property and related litigation, other litigation, FDA and other government regulation, third party reimbursement, restructuring activities, and anticipated cost savings.

Consolidated Balance Sheets

June 30	2000	1999
ASSETS		
Current Assets		
Cash and short-term investments	\$ 19,594,484	\$ 23,651,401
Trade accounts receivable, less allowance for doubtful accounts of \$17,975,000 and \$13,919,000	96,733,695	99,253,207
Inventories	67,769,192	61,212,368
Prepaid expenses and other	6,568,646	6,328,742
Deferred income tax benefits	18,229,780	13,814,104
Total Current Assets	208,895,797	204,259,822
Property, Plant and Equipment		
Land	3,061,203	3,342,017
Building	12,292,111	12,687,961
Machinery and equipment	67,293,530	64,603,276
Furniture, office and computer equipment	49,142,950	37,719,450
Leasehold improvements	2,613,240	1,249,044
	134,403,034	119,601,748
Less allowances for depreciation and amortization	67,618,053	58,371,315
	66,784,981	61,230,433
Funds held in trust for construction of new facility	0	852,631
Other Assets	14,558,526	11,822,484
Goodwill	62,762,589	65,420,031
	\$353,001,893	\$343,585,401
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 27,302,609	\$ 26,787,172
Accrued expenses and other	25,091,742	21,169,181
Current portion of long-term obligations	1,406,556	967,387
Total Current Liabilities	53,800,907	48,923,740
Long-term Obligations	108,095,093	99,374,180
Minority Interest	0	766,035
Commitments	0	0
Shareholders' Equity		
Common Stock, \$.01 par value; authorized 100,000,000 shares; issued and outstanding 33,182,565 shares at June 30, 2000 and 32,999,332 shares at June 30, 1999	331,826	329,993
Additional capital	110,795,650	108,863,191
Accumulated comprehensive loss	(3,131,703)	(1,231,013)
Retained earnings	126,462,237	120,709,953
Treasury stock	(43,352,117)	(34,150,678)
Total Shareholders' Equity	191,105,893	194,521,446
	\$353,001,893	\$343,585,401

See notes to consolidated financial statements.

Consolidated Statements of Operations

Year Ended June 30	2000	1999	1998
Net sales	\$368,184,110	\$357,570,743	\$351,576,443
Cost of goods sold	196,519,907	186,486,458	180,650,363
Cost of goods sold — restructuring charges	8,709,895	0	0
	162,954,308	171,084,285	170,926,080
General and administrative expenses	44,254,853	41,921,573	34,362,146
General and administrative expenses — increase to allowance for bad debts	4,500,000	6,600,000	2,838,000
Sales, marketing and commission expenses	62,771,648	60,899,432	65,560,336
Research and development expenses	16,814,561	16,713,796	20,224,584
Merger related costs	0	0	40,751,079
Restructuring charges	20,486,009	2,414,844	0
Costs related to unsolicited offer to acquire Healthdyne	0	0	650,000
Interest expense	6,945,585	5,206,767	4,188,740
Other income	(1,394,231)	(1,127,847)	(1,513,291)
	154,378,425	132,628,565	167,061,594
Income Before Income Taxes	8,575,883	38,455,720	3,864,486
Income taxes	2,823,599	15,394,236	5,689,220
Net Income (Loss)	\$ 5,752,284	\$ 23,061,484	\$ (1,824,734)
Basic earnings (loss) per share	\$ 0.19	\$ 0.73	\$ (0.06)
Basic shares outstanding	29,660,366	31,521,296	32,097,955
Diluted earnings (loss) per share	\$ 0.19	\$ 0.72	\$ (0.06)
Diluted shares outstanding	30,003,755	31,956,088	32,097,955

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

	Common Stock		Additional Capital	Accumulated Comprehensive Income (Loss)	Retained Earnings	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balance at June 30, 1997	31,656,900	\$ 316,569	\$ 92,838,205	\$ (689,813)	\$ 99,473,203	47,819	\$ (882,448)	\$ 191,055,716
Shares sold pursuant to stock option plans	1,021,732	10,217	8,368,232	0	0	0	0	8,378,449
Net acquisition and use of treasury stock	0	0	0	0	0	2,208	(213,057)	(213,057)
Income tax benefit from exercise of stock options	0	0	4,170,171	0	0	0	0	4,170,171
Comprehensive loss:								
Net loss for the year ended June 30, 1998	0	0	0	0	(1,824,734)	0	0	(1,824,734)
Foreign currency translation adjustments	0	0	0	(726,652)	0	0	0	(726,652)
Total comprehensive loss	0	0	0	(726,652)	(1,824,734)	0	0	(2,551,386)
Balance at June 30, 1998	32,678,632	326,786	105,376,608	(1,416,465)	97,648,469	50,027	(1,095,505)	200,839,893
Shares sold pursuant to stock option plans	320,700	3,207	2,850,897	0	0	0	0	2,854,104
Net acquisition and use of treasury stock	0	0	0	0	0	2,639,656	(33,055,173)	(33,055,173)
Income tax benefit from exercise of stock options	0	0	635,686	0	0	0	0	635,686
Comprehensive income:								
Net income for the year ended June 30, 1999	0	0	0	0	23,061,484	0	0	23,061,484
Foreign currency translation adjustments	0	0	0	185,452	0	0	0	185,452
Total comprehensive income	0	0	0	185,452	23,061,484	0	0	23,246,936
Balance at June 30, 1999	32,999,332	329,993	108,863,191	(1,231,013)	120,709,953	2,689,683	(34,150,678)	194,521,446
Shares sold pursuant to stock option plans	183,233	1,833	1,518,105	0	0	0	0	1,519,938
Net acquisition and use of treasury stock	0	0	0	0	0	1,043,815	(9,201,439)	(9,201,439)
Income tax benefit from exercise of stock options	0	0	414,354	0	0	0	0	414,354
Comprehensive income (loss):								
Net income for the year ended June 30, 2000	0	0	0	0	5,752,284	0	0	5,752,284
Foreign currency translation adjustments	0	0	0	(1,900,690)	0	0	0	(1,900,690)
Total comprehensive income (loss)	0	0	0	(1,900,690)	5,752,284	0	0	3,851,594
Balance at June 30, 2000	33,182,565	\$331,826	\$110,795,650	\$(3,131,703)	\$126,462,237	3,733,498	\$(43,352,117)	\$191,105,893

See notes to consolidated financial statements.

Consolidated Statements of Cash Flow

Year Ended June 30	2000	1999	1998
OPERATING ACTIVITIES			
Net income (loss)	\$ 5,752,284	\$ 23,061,484	\$ (1,824,734)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Depreciation	20,850,886	13,977,822	10,586,890
Amortization	5,259,653	5,253,215	3,428,791
Provision for asset write-offs	11,694,013	0	18,134,483
Provision for bad debts	4,500,000	6,600,000	2,838,000
Provision for deferred income taxes	(4,415,676)	3,540,822	(8,152,329)
Changes in operating assets and liabilities:			
Increase in accounts receivable	(1,980,488)	(14,868,087)	(11,834,737)
Increase in inventories and other current assets	(16,049,078)	(3,447,708)	(10,499,884)
(Increase) decrease in other assets	(4,943,022)	491,141	(1,902,889)
Increase (decrease) in accounts payable and accrued expenses	4,437,998	1,317,530	(13,815,149)
Net Cash Provided (Used) by Operating Activities	25,106,570	35,926,219	(13,041,558)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(27,304,289)	(25,629,332)	(20,012,780)
Acquisition of businesses	(1,085,407)	0	0
Net Cash Used By Investing Activities	(28,389,696)	(25,629,332)	(20,012,780)
FINANCING ACTIVITIES			
Proceeds from long-term obligations	11,219,280	29,355,985	68,500,000
Reduction in long-term obligations	(2,059,199)	(1,450,212)	(46,850,350)
Issuance of common stock	1,934,292	3,489,790	8,378,449
Acquisition of treasury stock, net	(9,201,439)	(33,055,173)	(213,057)
(Decrease) increase in minority interest	(766,035)	(46,081)	210,044
Net Cash Provided (Used) by Financing Activities	1,126,899	(1,705,691)	30,025,086
Effect of Exchange Rate Changes on Cash	(1,900,690)	185,452	(726,652)
(Decrease) Increase in Cash and Short-Term Investments	(4,056,917)	8,776,648	(3,755,904)
Cash and short-term investments at beginning of period	23,651,401	14,874,753	18,630,657
Cash and Short-Term Investments at End of Period	\$ 19,594,484	\$ 23,651,401	\$ 14,874,753

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note A — Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Respironics, Inc. (the “Company”) and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

REVENUE RECOGNITION

Revenue is recognized from sales when a product is shipped to a customer location, at which point title passes to the customer.

INVENTORIES

Inventories are valued at the lower of cost (first-in, first-out) or market.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recorded on the basis of cost. Depreciation is computed using the straight-line method based upon the estimated useful lives of the respective assets, which range from five to 30 years. Amortization of assets under capital leases is included in depreciation expense.

INCOME TAXES

Provisions for income taxes include deferred taxes resulting from temporary differences in income for financial and tax purposes using the liability method. Such temporary differences result primarily from differences in the carrying value of assets and liabilities.

The Company does not provide for federal income taxes on the undistributed earnings of its foreign subsidiaries (other than deemed dividends which are taxed currently) because such earnings are reinvested and, in the opinion of management, will continue to be reinvested indefinitely.

FOREIGN CURRENCY TRANSLATION

The Company follows Statement of Financial Accounting Standards No. 52, “Foreign Currency Translation,” for the translation of the accounts of its foreign subsidiaries. Foreign currency assets and liabilities are translated into U.S. dollars at the rate of exchange existing at the statement date or historical rates depending upon the nature of the account. Income and expense amounts are translated at the average of the monthly exchange rates. Adjustments resulting from these translations are credited or charged directly to accumulated comprehensive income (loss). Gains and losses resulting from foreign currency transactions are credited or charged directly to income.

STOCK OPTIONS

Stock options are granted to certain employees and certain members of the Company’s Board of Directors at fair market value on the date of the grant. Proceeds from the exercise of common stock options are credited to shareholders’ equity at the date the options are exercised. There are no charges or credits to income with respect to these options. The Company follows the requirements of Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” in accounting for stock-based compensation.

EARNINGS PER SHARE

Basic earnings per share are based on the weighted average number of shares actually outstanding. Diluted earnings per share are based on the weighted average number of shares actually outstanding and dilutive potential shares, such as dilutive stock options which are determined using the treasury stock method.

Notes to Consolidated Financial Statements (continued)

CASH AND SHORT-TERM INVESTMENTS

The Company considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash and short-term investments.

CAPITALIZED SOFTWARE PRODUCTION COSTS

Software development costs have been capitalized and are being amortized to the cost of product revenues over the estimated economic lives (generally three to five years) of the products that include such software. Total net capitalized software production costs were \$772,000 and \$1,096,000 at June 30, 2000 and 1999, respectively.

ADVERTISING COSTS

Advertising is charged to expenses during the period in which it is incurred. Total advertising expenses for the fiscal years ended June 30, 2000, 1999 and 1998 were \$1,224,000, \$975,000 and \$1,138,000, respectively.

GOODWILL AND OTHER LONG-LIVED ASSETS

Goodwill is the cost in excess of the fair value of net assets of businesses acquired and is amortized on the straight-line method over periods from 15 to 40 years. Accumulated amortization was \$15,514,000 and \$11,664,000 at June 30, 2000 and 1999, respectively. The Company evaluates the carrying value of goodwill and other long-lived assets for potential impairment on an ongoing basis. Such evaluation considers projected future operating results, trends and other circumstances. If factors indicated that goodwill or other long-lived assets could be impaired, the Company would use an estimate of the related undiscounted future cash flows over the remaining life of the goodwill or other long-lived asset in measuring whether the goodwill or other long-lived asset is recoverable. If such an analysis indicated that impairment had occurred, the Company would adjust the book value of the goodwill or other long-lived asset to fair value.

ACCRUED EXPENSES AND OTHER

Accrued expenses and other includes accrued compensation of \$5,757,000 and \$6,532,000 at June 30, 2000 and 1999, respectively.

COMPREHENSIVE INCOME

The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," during the fiscal year ended June 30, 1999. This statement establishes standards for the reporting and display of "comprehensive income" and its components, in addition to net income, in the financial statements. Comprehensive income consists of net income and foreign currency translation adjustments and is presented in the Consolidated Statement of Shareholders' Equity. The adoption of Statement No. 130 had no impact on total shareholders' equity. Prior year financial statements have been reclassified to conform to the Statement No. 130 requirements.

USE OF ESTIMATES

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

CHANGES IN PRESENTATION OF COMPARATIVE FINANCIAL STATEMENTS

Certain amounts in the June 30, 1999 and 1998 financial statements were reclassified to conform with the presentation in the current period.

Note B — Short-term Investments

Short-term investments consist primarily of money market accounts and certificates of deposit issued by large commercial banks located in the United States and Hong Kong. These investments are readily convertible to cash and are stated at cost, which approximates market.

Note C — Inventories

Inventories consisted of the following:

June 30	2000	1999
Raw materials	\$21,560,937	\$23,633,517
Work-in-process	5,825,137	7,036,132
Finished goods	40,383,118	30,542,719
	\$67,769,192	\$61,212,368

Note D — Long-term Obligations

Long-term obligations consisted of the following:

June 30	2000	1999
1989 Economic Development Revenue Bonds, variable interest rate (effective rate of 4.01%, including letter of credit and remarketing fees, at June 30, 2000), principal payable in annual installments of \$200,000 through November 2004	\$ 1,000,000	\$ 1,200,000
Industrial Development Authority Loan, payable in monthly installments of \$13,777, including interest at 3%, through June 2005	756,440	885,249
Redevelopment Authority Loan, payable in quarterly installments of \$14,533, including interest at 5%, through December 2005	278,020	331,289
Redevelopment Authority Loan, payable in monthly installments of \$6,296, including interest at 2%	0	684,253
Industrial Development Authority Loan, payable in monthly installments of \$7,289, including interest at 2%, through March 2010	789,494	854,713
Industrial Development Revenue Bond, payable in quarterly installments of \$40,000 plus interest at a floating rate (effective rate of 5.04% including letter of credit fees at June 30, 2000) through November 2009	4,200,000	4,360,000
Commercial Bank Credit Agreement, payable in one lump sum in May 2003 including interest at a floating rate (7.50% at June 30, 2000)	101,100,000	91,500,000
Other	1,377,695	526,063
	109,501,649	100,341,567
Less current portion	1,406,556	967,387
	\$108,095,093	\$ 99,374,180

Notes to Consolidated Financial Statements (continued)

The Economic Development Revenue Bonds, the Industrial Development Authority Loans and the Redevelopment Authority Loans are secured by mortgages on the Company's manufacturing facility in Murrysville, Pennsylvania. The Revenue Bond is secured by a mortgage on the Company's facility in Westminster, Colorado. Proceeds from the bonds and the loans were used to finance the construction and expansion of the facilities. One of the Redevelopment Authority Loans was repaid during the year ended June 30, 2000. The Commercial Bank Credit Agreement, under which a total of \$125,000,000 is available, is unsecured. The Company is required to meet certain financial covenants in connection with these obligations, including those relating to current ratio, ratio of total liabilities to tangible net worth, minimum tangible net worth, leverage and interest coverage. At June 30, 2000, the Company was in compliance with these covenants. The Commercial Bank Revolving Credit Agreement includes a commitment fee, currently equal to 0.225%, on the unused portion of the facility.

Scheduled maturities of long-term obligations for the next five years are as follows:

	Maturities of Long-Term Debt
2001	\$ 1,406,556
2002	1,158,262
2003	101,809,390
2004	649,223
2005	645,692
Thereafter	3,832,526
Total	\$109,501,649

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Interest paid was \$6,590,000, \$5,228,000 and \$3,790,000 for the years ended June 30, 2000, 1999 and 1998, respectively.

Note E — Operating Leases

The Company leases its corporate headquarters, its vent centers, its central distribution center and certain of its offices, warehouses and manufacturing facilities in the United States and also leases its offices, warehouses and manufacturing facilities in the Far East and in Europe.

The minimum rentals due under noncancelable leases with recurring terms of one year or more as of June 30, 2000 are as follows:

Year Ending June 30	Amount
2001	\$ 4,164,000
2002	4,124,000
2003	3,872,000
2004	3,566,000
2005	2,379,000
Thereafter	9,415,000
Total	\$27,520,000

Total rent expense for the years ended June 30, 2000, 1999 and 1998 was \$3,841,000, \$3,900,000 and \$3,318,000, respectively.

Note F — Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments:

CASH AND SHORT-TERM INVESTMENTS

The carrying amount approximates fair value because of the short maturity of those investments.

LONG-TERM OBLIGATIONS

The fair values of long-term debt obligations are established from the market values of similar issues. The carrying amounts of the Company's obligations approximate their fair values at June 30, 2000 and 1999.

Note G — Income Taxes

Income (loss) before income taxes consisted of the following:

Year Ended June 30	2000	1999	1998
United States	\$10,020,446	\$39,228,046	\$ 253,254
Foreign	(1,444,563)	(772,326)	3,611,232
Total	\$ 8,575,883	\$38,455,720	\$3,864,486

Year Ended June 30	2000	1999	1998
Income taxes (benefit) consisted of:			
Current:			
Federal	\$ 5,975,847	\$10,725,807	\$11,046,816
Foreign	184,800	(849,893)	648,804
State	1,078,628	1,977,500	2,145,929
Tax benefit from exercise of stock options	(414,354)	(635,686)	(4,170,171)
	6,824,921	11,217,728	9,671,378
Deferred:			
Federal	(3,775,687)	2,994,679	(7,017,573)
State	(639,989)	546,143	(1,134,756)
	(4,415,676)	3,540,822	(8,152,329)
Credit to additional paid-in-capital for tax benefit from stock option exercises	414,354	635,686	4,170,171
Total Income Taxes	\$ 2,823,599	\$15,394,236	\$ 5,689,220

The difference between the statutory U.S. federal income tax rate and the Company's effective income tax rate is explained below:

Year Ended June 30	2000	1999	1998
Statutory federal income tax rate	35%	35%	35%
Increases (decreases):			
State taxes, net of federal benefit	3	4	17
Foreign taxes	7	(2)	(13)
Tax credits	(8)	(2)	(29)
Tax liability adjustment	(19)	0	0
Non-deductible expenses (primarily goodwill amortization and certain merger related costs)	14	5	137
Other items, net	1	0	0
Effective Income Tax Rate	33%	40%	147%

Notes to Consolidated Financial Statements (continued)

Deferred income tax assets consisted of the following:

June 30	2000	1999
Allowance for bad debts	\$ 6,308,089	\$ 4,196,645
Depreciation	(240,205)	(14,895)
Inventory reserves	5,143,403	3,731,186
Restructuring reserves	1,427,546	0
Other	5,590,947	5,901,168
Total	\$18,229,780	\$13,814,104

Undistributed earnings of the foreign subsidiaries on which no U.S. income tax has been provided amounted to \$10,296,390 at June 30, 2000.

Income taxes paid were \$3,286,051, \$9,352,998 and \$18,473,851 for the years ended June 30, 2000, 1999 and 1998, respectively.

During fiscal year 2000, the Company reached an agreement with the Internal Revenue Service regarding examinations of federal income tax returns for certain of the Company's U.S. entities for fiscal years 1996 through 1998. Based on this agreement, the Company recorded a one-time reduction in income tax liability and income tax expense of \$1,643,000 during the year.

Note H — Stock Option and Purchase Plans

The Company has in place the 1984 Incentive Stock Option Plan (the "1984 Plan") and the 1992 Stock Incentive Plan (the "1992 Plan") which provide options to eligible employees to purchase common stock over five or ten years at option prices not less than fair market value at the time of the grant. Options become exercisable no sooner than six months from the date of the grant at rates that vary depending on the plan and are subject to possible acceleration in certain circumstances. Under the 1992 Plan, options may include cash payment rights and eligible employees may receive awards of restricted shares of the Company's common stock. The 1984 Plan, which terminated as to new grants in 1993, had 3,400,000 options approved for issuance. The 1992 Plan has a total of 3,000,000 options and restricted shares approved for issuance, including 1,000,000 options that were approved by the Company's shareholders when the 1992 Plan was adopted and an additional 2,000,000 options that were approved by the Company's shareholders in November 1998.

The Company also has in place the 1991 Non-Employee Directors' Stock Option Plan (the "Directors' Plan"). All options under the Directors' Plan are granted to members of the Company's Board of Directors who are not employees of the Company. Each non-employee director receives an option to purchase 5,100 shares on the third business day following the Company's annual meeting of shareholders. These grants will continue until options for all the shares available under the Directors' Plan have been granted. Such options are granted at fair market value on the date of grant. For options granted under the Directors' Plan, 25% of the shares are exercisable one year after the date of the grant, 25% are exercisable two years after the date of grant, and the remaining 50% are exercisable three years after the date of grant. All options granted under the Directors' Plan expire ten years after the date of grant. The Directors' Plan has 300,000 options approved for issuance.

Healthdyne had in place, prior to its merger with the Company, four stock option plans: the 1993 Stock Option Plan; the 1993 Nonemployee Director Stock Option Plan; the 1995 Stock Option Plan II; and the 1996 Stock Option Plan. At the date of the merger, the outstanding Healthdyne options were converted into a total of 1,360,061 options to purchase Respiroics common stock. Under the terms of the Healthdyne plans, all such options became immediately exercisable at the date of the merger and the plans terminated as to new grants. All future stock option grants will be made from Respiroics stock option plans.

Pertinent information regarding options under all Plans is as follows:

Year Ended June 30	2000	Option Shares	
		1999	1998
Outstanding at beginning of period	1,950,861	1,843,278	2,696,987
Granted:			
Price range (\$ 7.94 – \$14.44)	1,092,247		
Price range (\$12.00 – \$19.13)		498,906	
Price range (\$18.56 – \$26.84)			248,500
Exercised:			
Price range (\$ 2.81 – \$16.25)	(183,233)		
Price range (\$ 1.38 – \$24.63)		(320,683)	
Price range (\$ 1.00 – \$22.75)			(1,017,589)
Canceled	(275,396)	(70,640)	(84,620)
Outstanding at end of period (Weighted average price \$10.91)	2,584,479	1,950,861	1,843,278
Exercisable at end of period	1,100,821	1,187,288	1,458,557
Shares available for future grant	1,332,211	2,149,111	577,377

The per share weighted-average fair value of stock options granted during 2000, 1999 and 1998 was \$4.81, \$ 6.04 and \$12.09, respectively, on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2000	1999	1998
Expected volatility	56.8%	52.7%	43.1%
Expected dividend yield	none	none	none
Risk-free interest rate	6.0%	6.0%	5.7%
Expected life of stock options	5	5	5

The Company applies APB Opinion No. 25 in accounting for its stock option plans and accordingly, no compensation cost has been recognized for its stock options in the financial statements. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," the Company's net earnings and related per share amounts would have been reduced to the pro forma amounts indicated below:

	2000	1999	1998
Net earnings (loss):			
As reported	\$5,752,284	\$23,061,484	\$(1,824,734)
Pro forma	3,365,284	21,391,820	(3,243,498)
Diluted earnings (loss) per share:			
As reported	0.19	0.72	(0.06)
Pro forma	0.11	0.67	(0.10)

In March 1997, the Company adopted an Employee Stock Purchase Plan ("Plan") under which employees can purchase common stock of the Company through payroll deductions. The purchase price under the Plan is the lesser of 85% of the market value of the Company's common stock on either the first or last day of the Plan year. The maximum amount each employee can purchase is equal to 20% of annual compensation. There are no charges or credits to income in connection with the Plan. Shares are purchased at the end of each Plan year with the funds set aside through payroll deductions.

Notes to Consolidated Financial Statements (continued)

In June 1996, the Company adopted a shareholders' rights plan under which existing and future shareholders received a right for each share outstanding entitling such shareholders to purchase shares of the Company's common stock at a specified exercise price. The right to purchase such shares is not currently exercisable, but would become exercisable in the future if certain events occurred relating to a person or group (the "acquiror") acquiring or attempting to acquire 20% or more of the Company's outstanding shares of common stock. In the event the rights become exercisable, each right would entitle the holder (other than the acquiror) to purchase shares of the Company's common stock having a value equal to two times the specified exercise price.

Note I — Industry Segment, Financial Information by Geographic Areas and Major Customers

The Company conducts its operations in one reportable industry segment; the design, development, manufacture and sale of medical devices. Sales by product within this segment are as follows:

Year Ended June 30	2000	1999	1998
Net Sales			
Homecare	\$307,644,676	\$299,685,569	\$305,506,031
Hospital	38,595,151	34,943,095	21,373,050
Asthma and Allergy	21,944,283	22,942,079	24,697,362
Net Sales	\$368,184,110	\$357,570,743	\$351,576,443

Financial information about the Company by geographic area is presented below.

Year Ended June 30	2000	1999	1998
Net Sales			
United States:			
Unaffiliated customers	\$342,454,391	\$324,070,103	\$317,032,121
Interarea transfers	81,490,976	100,953,047	25,318,249
	423,945,367	425,023,150	342,350,370
Europe:			
Unaffiliated customers	18,851,063	23,324,507	24,094,532
Interarea transfers	821,544	0	0
	19,672,607	23,324,507	24,094,532
Far East:			
Unaffiliated customers	6,878,656	10,176,133	10,449,790
Interarea transfers	7,249,466	6,505,547	4,713,133
	14,128,122	16,681,680	15,162,923
Elimination — Transfers	89,561,986	107,458,594	30,031,382
Net Sales	\$368,184,110	\$357,570,743	\$351,576,443
Operating Profit			
United States	\$ 53,214,768	\$ 54,013,927	\$ 52,861,539
Europe	1,417,203	(1,173,304)	1,037,896
Far East	1,018,033	3,640,863	4,172,253
Operating Profit	55,650,004	56,481,486	58,071,688
Corporate expense	40,128,536	12,818,999	50,018,462
Interest expense	6,945,585	5,206,767	4,188,740
Income Before Income Taxes	\$ 8,575,883	\$ 38,455,720	\$ 3,864,486

Interarea transfers are accounted for at prices comparable to unaffiliated customer sales reduced by an approximation of costs not incurred on internal sales.

Additional information regarding assets and liabilities by geographic area follows:

June 30	2000	1999
Identifiable Assets		
United States	\$289,065,119	\$275,915,304
Europe	18,808,344	20,687,292
Far East	7,304,166	9,517,300
	315,177,629	306,119,896
Corporate assets (cash and short-term investments and deferred income taxes)	37,824,264	37,465,505
Total Assets	\$353,001,893	\$343,585,401
Total Assets		
United States	\$318,747,490	\$307,280,161
Europe	24,321,516	21,772,570
Far East	9,932,887	14,532,670
	\$353,001,893	\$343,585,401
Total Liabilities		
United States	\$158,314,914	\$140,707,126
Europe	987,844	4,022,739
Far East	2,593,242	4,334,090
	\$161,896,000	\$149,063,955

The Company develops, manufactures and markets medical devices for the treatment of patients suffering from respiratory disorders. Its products are used primarily in the home and in hospitals, as well as emergency medical settings and alternative care facilities. The Company sells and rents primarily to distributors in the healthcare industry and closely monitors the extension of credit to both domestic and foreign customers, including obtaining and analyzing credit applications for all new accounts and maintaining an active program to contact customers promptly when invoices become past due. No single customer accounted for 10% or more of net sales for the fiscal years ended June 30, 2000, 1999 or 1998.

Note J — Retirement Plans

The Company has a Retirement Savings Plan which is available to all U.S. employees. Employees may contribute up to 15% (to a defined maximum) of their compensation. The Company matches employee contributions (up to 3% of each employee's compensation) at a 100% rate and may make discretionary contributions. Total Company contributions to these plans was \$1,528,000, \$1,270,000 and \$877,000 for the years ended June 30, 2000, 1999 and 1998, respectively. The Company's current benefit program does not provide postretirement benefits to employees.

Note K — Significant Acquisitions

In February 1998, the Company merged a wholly owned subsidiary with Healthdyne Technologies, Inc. ("Healthdyne") in a stock for stock merger by issuing approximately 12,000,000 shares of the Company's common stock in exchange for the outstanding shares of Healthdyne. The merger was accounted for as a pooling of interests. Accordingly, the consolidated financial statements include, for all periods presented, the combined financial results and financial position of the Company and Healthdyne.

In February 1997, the Company acquired the capital stock of Stimotron Medizinische Gerate GmbH ("Stimotron"). The initial consideration paid was \$9,000,000 in cash, with the terms of the transaction providing for additional consideration of up to \$5,000,000 in cash over the next four years based

Notes to Consolidated Financial Statements (continued)

upon the achievement of certain financial results in Germany. Financing for the initial consideration was obtained from a commercial bank, and financing for the additional consideration, if needed, is expected to come from the Company's Commercial Bank Credit Agreement. As of June 30, 2000, \$1,085,000 of additional consideration has been paid. There is a maximum of \$2,500,000 that may be paid through the end of the earnout period in July 2001.

Note L — Contingencies

The Company is party to actions filed in a Federal District Court in January 1995 and June 1996 in which a competitor alleges that the Company's manufacture and sale in the United States of certain products infringes four of the competitor's patents. In its response to these actions, the Company has denied the allegations and has separately sought judgment that the claims under the patents are invalid or unenforceable and that the Company does not infringe upon the patents. The January 1995 and June 1996 actions have been consolidated, and discovery is ongoing. The Court has granted the Company's various motions for summary judgment and held that the Company does not infringe any of the competitor's four patents at issue. The competitor may seek an appeal of those decisions. In any event, the Company intends to continue to pursue its claims that the competitor's patents are invalid or unenforceable.

The Company is, as a normal part of its business operations, a party to other legal proceedings in addition to those described above. Legal counsel has been retained for each proceeding and none of these proceedings is expected to have a material adverse impact on the Company's results of operations or financial condition.

In connection with customer leasing programs with independent leasing companies, the Company is contingently liable, in the event of a customer default, to the leasing companies within certain limits for unpaid installment receivables transferred to the leasing companies. The total exposure for unpaid installment receivables was approximately \$20,928,000 and \$16,320,000 at June 30, 2000 and 1999, respectively. The transfer of these installment receivables meets the criteria of Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," and therefore, these receivables are not recorded on the Company's financial statements.

Note M — Restructuring

In July 1999, the Company announced a major restructuring of its U.S. operations. The major components of the restructuring included the closing of the Westminster, Colorado manufacturing facility, the closing of 19 customer satisfaction centers throughout the United States, the downsizing of the Marietta, Georgia manufacturing facilities, the opening of a centralized distribution and repair center in Youngwood, Pennsylvania, the realignment of the Company into four divisions with a corresponding management realignment, and a workforce reduction of approximately 10% associated with the facility changes and the realignment. The facility changes and workforce reduction were completed during fiscal year 2000, and the divisional realignment is currently in place.

Reconciliation of Restructuring Reserves

	Employee Severance Costs	Asset Write-Downs	Lease Buyouts & Other Direct Expenses	Total Restructuring
Balance at July 1, 1999	\$ 0	\$ 0	\$ 0	\$ 0
Restructuring charges (net)	6,300,000	8,900,000	14,000,000	29,200,000
Cash expenditures	(3,100,000)	0	(12,900,000)	(16,000,000)
Noncash expenditures	0	(1,700,000)	0	(1,700,000)
Balance at June 30, 2000	\$ 3,200,000	\$ 7,200,000	\$ 1,100,000	\$ 11,500,000

During fiscal year 2000, the Company incurred a total of \$29,200,000 in charges related to this restructuring. The primary components of these charges were severance and employment related costs (\$6,300,000), asset write-downs to reflect decisions made regarding product, facility and systems rationalization (\$8,900,000), and lease buyouts related to facility rationalizations and other direct expenses of the restructuring (\$14,000,000). Restructuring costs incurred but not yet paid have been credited to accrued expense and asset write-downs have been credited against the applicable asset accounts. Substantially all of the remaining restructuring accruals as of June 30, 2000 will be paid out during the next two years.

During fiscal year 1999, the Company incurred \$2,415,000 in costs related to its decision to enter into a new distribution arrangement for sales of its products in Germany. Under the new arrangement, the Company's products are being distributed by an independent dealer in Germany, and the Company's direct sales efforts in that country have been significantly reduced. Accordingly, costs were incurred to reduce the Company's German workforce and facilities as follows: employment related costs (\$1,400,000), asset write-offs (\$200,000) and lease buyouts and other direct expenses (\$815,000). Substantially all of these costs have been paid.

Note N — Merger Costs

During the year ended June 30, 1998, the Company incurred approximately \$41,000,000 in costs related to the merger with Healthdyne. The primary components of these costs were direct expenses of the transaction (\$9,500,000) employment related costs (\$9,500,000), asset write-downs to reflect decisions made regarding product and operational standardization (inventory, \$11,000,000; other assets, \$8,000,000) and other merger related costs (\$3,000,000). Transaction and employment costs incurred but not yet paid have been credited to accrued expense and asset write-downs have been credited against the applicable asset accounts. Included in asset write-downs is \$1,000,000 resulting from Healthdyne and Respironics conforming accounting practices as they relate to the recording of the allowance for doubtful accounts. Approximately \$722,000 of merger related costs remain unpaid at June 30, 2000. Those amounts are expected to be paid over the next five years.

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Note O — Stock Repurchase

In August 1998, the Company's Board of Directors authorized a stock buyback of up to 1,000,000 shares of the Company's outstanding common stock. In October 1998, the Board of Directors increased the authorization to a total of up to 2,000,000 shares and in March 1999 increased the authorization to a total of up to 3,000,000 shares. In September 1999, the Company's Board of Directors increased the authorization to the present total of up to 4,000,000 shares. During fiscal year 1999, the Company repurchased, net of share usage, a total of 2,640,000 shares in open market transactions resulting in a net use of cash of \$33,055,000. During fiscal year 2000, the Company repurchased, net of share usage, a total of 1,044,000 shares in open market transactions resulting in a net use of cash of \$9,201,000. Shares that are repurchased are added to treasury shares pending future use and reduce the number of shares outstanding used in calculating earnings per share.

Note P — Special Items

In February 2000, the parent company of one of the Company's major customers filed a voluntary petition to reorganize under Chapter 11 of the U.S. Bankruptcy Code. The Company's customer was one of the entities included in the filing. According to press releases issued in connection with the filing and discussions with the customer, the election to seek court protection was made in order to facilitate the restructuring of the parent company's capital and lease obligations and normal business

Notes to Consolidated Financial Statements (continued)

operations of the Company's customer are continuing. The Company's total balance due from the customer at the date of the filing was approximately \$4,500,000, and accordingly, the Company has recorded a \$4,500,000 special increase to the Company's allowance for doubtful accounts.

Note Q — Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

Year Ended June 30	2000	1999	1998
Numerator:			
Net Income (Loss)	\$ 5,752,284	\$23,061,484	\$ (1,824,734)
Denominator:			
Denominator for basic earnings per share — weighted average shares	29,660,366	31,521,296	32,097,955
Effect of Dilutive Securities — Stock Options	343,389	434,792	0
Denominator for diluted earnings per share — adjusted weighted average shares and assumed conversions	30,003,755	31,956,088	32,097,955
Basic Earnings (Loss) Per Share	\$0.19	\$0.73	\$(0.06)
Diluted Earnings (Loss) Per Share	\$0.19	\$0.72	\$(0.06)

Note R — Quarterly Results of Operations (Unaudited)

Following are the unaudited quarterly results of operations for the fiscal years ended June 30, 2000 and 1999:

2000 Three Months Ended	September 30	December 31	March 31	June 30
Net Sales	\$80,599,000	\$91,703,000	\$97,837,000	\$98,045,000
Gross Profit Including Restructuring Costs	32,587,000	42,321,000	45,838,000	42,208,000
Gross Profit Excluding Restructuring Costs	37,163,000	42,321,000	46,352,000	45,828,000
Special Addition to Allowance for Uncollectible Receivables	0	0	4,500,000	0
Restructuring Costs	14,679,000	3,326,000	4,232,000	6,959,000
Net Income (Loss)	(4,554,000)	3,664,000	3,789,000	2,853,000
Basic Earnings (Loss) Per Share	(0.15)	0.12	0.13	0.10
Diluted Earnings (Loss) Per Share	(0.15)	0.12	0.13	0.09
1999 Three Months Ended	September 30	December 31	March 31	June 30
Net Sales	\$86,412,000	\$90,197,000	\$90,882,000	\$90,080,000
Gross Profit	41,646,000	43,348,000	44,304,000	41,786,000
Special Addition to Allowance for Uncollectible Receivables	0	0	0	5,000,000
Restructuring Costs	0	0	0	2,415,000
Net Income	6,309,000	7,359,000	8,261,000	1,132,000
Basic Earnings Per Share	0.19	0.23	0.26	0.04
Diluted Earnings Per Share	0.19	0.23	0.26	0.04

Report of Independent Auditors

**BOARD OF DIRECTORS
RESPIRONICS, INC. AND SUBSIDIARIES**

We have audited the accompanying consolidated balance sheets of Respironics, Inc. and subsidiaries as of June 30, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended June 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Respironics, Inc. and subsidiaries at June 30, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2000, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Pittsburgh, Pennsylvania
July 25, 2000

Five-Year Summary

(amounts in thousands except ratios and per share data)

Year Ended June 30	2000	1999	1998	1997	1996
Per Share Data					
Net income (loss)	\$ 0.19 ⁽¹⁾	\$ 0.72 ⁽⁶⁾	\$ (0.06) ⁽⁸⁾	\$ 0.82 ⁽⁸⁾	\$ 0.71
Book value at year end	6.49	5.89	6.14	6.03	5.37
Results of Operations					
Net sales	\$368,184	\$357,571	\$351,576	\$314,542	\$236,471
Cost of goods sold	205,230 ⁽²⁾	186,487	180,650	161,283	120,597
Income before income taxes	8,576 ⁽³⁾	38,456 ⁽⁶⁾	3,864 ⁽⁸⁾	43,984 ⁽⁸⁾	35,328
Net income (loss)	5,752 ⁽¹⁾	23,061 ⁽⁶⁾	(1,825) ⁽⁸⁾	26,425 ⁽⁸⁾	21,486
Financial Position at Year End					
Working capital	\$155,095	\$155,336	\$137,550	\$110,566	\$135,564
Property, plant and equipment (net)	66,785	61,230	48,924	42,094	30,120
Total assets	353,002	343,585	318,320	294,769	232,924
Long-term obligations	108,095	99,374	69,316	48,985	33,035
Shareholders' equity	191,106	194,521	200,840	191,056	162,644
Other Data					
Capital expenditures	\$ 27,304	\$ 23,005	\$ 20,013	\$ 11,186	\$ 10,066
Depreciation and amortization	26,111	16,101	14,016	10,194	7,021
Number of employees at year end	1,940	1,988	2,045	2,094	1,772
Diluted shares outstanding	30,004	31,956	32,098	32,352	30,285
Selected Financial Ratios					
Gross profit as a percent of sales	47% ⁽⁴⁾	48%	49%	49%	49%
Income before income taxes as a percent of sales	11% ⁽⁵⁾	13% ⁽⁷⁾	13% ⁽⁹⁾	15% ⁽⁹⁾	15%
Effective income tax rate	40% ⁽⁵⁾	40% ⁽⁷⁾	40% ⁽⁹⁾	40% ⁽⁹⁾	39%
Net income as a percent of sales	7% ⁽⁵⁾	8% ⁽⁷⁾	8% ⁽⁹⁾	9% ⁽⁹⁾	9%
Return on average equity	13% ⁽⁵⁾	14% ⁽⁷⁾	14% ⁽⁹⁾	16% ⁽⁹⁾	17%
Debt to equity ratio	57%	51%	35%	26%	20%
Current ratio	3.88x	4.34x	3.90x	2.90x	4.73x

⁽¹⁾ Includes the impact of restructuring charges, a special addition to the allowance for doubtful accounts, and a one-time reduction in income tax expense. These costs reduced net income by \$19,611,000 (\$0.66 per share) in fiscal year 2000.

⁽²⁾ Includes the impact of restructuring charges, totaling \$8,710,000 in fiscal year 2000.

⁽³⁾ Includes the impact of restructuring charges and a special addition to the allowance for doubtful accounts, totaling \$33,696,000 in fiscal year 2000.

⁽⁴⁾ Excludes the impact of restructuring charges.

⁽⁵⁾ Excludes the impact of restructuring charges, a special addition to the allowance for doubtful accounts, and a one-time reduction in income tax expense, where applicable.

⁽⁶⁾ Includes the impact of a special addition to the allowance for doubtful accounts and restructuring charges. These costs reduced net income by \$4,449,000 (\$0.14 per share) in fiscal year 1999.

⁽⁷⁾ Excludes the impact of a special addition to the allowance for doubtful accounts and restructuring charges.

⁽⁸⁾ Includes the impact of merger costs and cost associated with an unsolicited offer to acquire Healthdyne. These costs reduced net income by \$29,095,000 (\$0.88 per share) in fiscal year 1998 and \$1,289,000 (\$0.04 per share) in fiscal year 1997.

⁽⁹⁾ Excludes the impact of merger costs and cost associated with an unsolicited offer to acquire Healthdyne.

Shareholder Information

CORPORATE HEADQUARTERS

1501 Ardmore Boulevard
Pittsburgh, PA 15221-4401
(412) 731-2100

ANNUAL MEETING OF SHAREHOLDERS

The annual meeting of the shareholders will be held at the Union Trust Building, 501 Grant Street, Pittsburgh, Pennsylvania on November 16, 2000 at 10:30 a.m.

MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

The company's shares are traded on the over-the-counter market and are reported on the NASDAQ National Market System under the symbol RESP. The company began trading on the national over-the-counter market on May 12, 1988. As of September 8, 2000, there were 2,892 shareholders of record of the company's common stock.

The company has never paid a cash dividend with respect to its common stock and does not intend to pay cash dividends in the foreseeable future.

High and low price information for the company's common stock for the applicable quarter is shown below:

	Fiscal Year Ended June 30, 2000				Fiscal Year Ended June 30, 1999			
	First	Second	Third	Fourth	First	Second	Third	Fourth
High	\$15.13	\$8.69	\$15.94	\$18.00	\$19.88	\$20.75	\$21.38	\$16.12
Low	\$ 8.13	\$7.50	\$ 7.94	\$11.25	\$11.25	\$ 9.88	\$10.81	\$12.38

FORM 10-K

Copies of the Respironics, Inc. annual report on Form 10-K as filed with the Securities and Exchange Commission will be sent without charge upon request. Address requests to Dorita Pishko, Corporate Secretary, Respironics, Inc., 1501 Ardmore Boulevard, Pittsburgh, PA 15221-4401 or dorita.pishko@respironics.com.

SHAREHOLDER INQUIRIES/FINANCIAL DATA

Shareholders, analysts or others seeking information about the company are encouraged to visit the company's Web site at www.respironics.com or to contact Daniel Bevevino, Vice President and Chief Financial Officer, or James Woll, Vice President – Corporate Controller, Respironics, Inc., 1501 Ardmore Boulevard, Pittsburgh, PA 15221-4401.

MARKET MAKERS

Archipelago, LLC	Knight Securities LP	Schwab Capital Markets
Deutsche Bank Securities Inc.	M.H. Meyerson & Co.	SG Cowen Securities
Herzog, Heine, Geduld, Inc.	McDonald & Company Sec., Inc.	Sherwood Securities Corp.
ING Barings Furman Selz LLC	Parker / Hunter Inc.	Spear, Leeds & Kellogg
Instinet Corporation	Robert W. Baird & Co., Inc.	The Bass Utility, L.L.C.
Jefferies & Company, Inc.		

RESEARCH COVERAGE

Robert W. Baird	Lynch Jones & Ryan	Midwest Research
ING Barings	McDonald Investments Inc.	Parker / Hunter Inc.

TRANSFER AGENT AND REGISTRAR

Chase Mellon Shareholder Services, Four Station Square, Third Floor, Pittsburgh, PA 15219, or www.chasemellon.com.

GENERAL COUNSEL

Steven P. Fulton

AUDITORS

Ernst & Young LLP, Pittsburgh, PA 15219

Officers and Directors

EXECUTIVE OFFICERS

Gerald E. McGinnis
Chairman of the Board

James W. Liken
President and Chief
Executive Officer

Daniel J. Bevevino
Vice President and
Chief Financial Officer

Robert D. Crouch
Senior Vice President,
New Ventures and
Corporate Services

Steven P. Fulton
Vice President and
General Counsel

Susan A. Lloyd
Vice President,
Asthma and Allergy Division

John L. Miclot
Senior Vice President;
President, Home Care Division

Craig B. Reynolds
Executive Vice President and
Chief Operating Officer

Geoffrey C. Waters
President,
International Division

Paul L. Woodring
Vice President,
Hospital Division

CORPORATE OFFICERS

Dorita A. Pishko
Corporate Secretary

Eugene A. Rindels
Chief Information Officer

James C. Woll
Vice President and
Corporate Controller

VICE PRESIDENTS

Gardner J. Kimm
Vice President, Engineering,
Hospital Division

David C. Lain, Ph.D.
Vice President, Clinical
& Program Development,
Home Care Division

Douglas M. Mechlenburg
Vice President, Engineering,
Home Care Division

William R. Thompson
Vice President, Sales,
Home Care Division

Richard J. Umlor
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Hospital Division

Dale G. West
Vice President, Operations &
Supply Chain Management,
Home Care Division

Peter S. White
Vice President, EAME,
International Division

BOARD OF DIRECTORS

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Private Investor

Douglas A. Cotter, Ph.D.
Senior Vice President,
Leerink Swann and Company
(An investment firm)

J. Terry Dewberry
Private Investor

James H. Hardie
of Counsel, Reed Smith LLP
(A law firm)

Donald H. Jones
Chairman, Triangle
Capital Corporation
(An investment firm)

Joseph C. Lawyer
Vice Chairman,
Reunion Industries Inc.
(A designer and manufacturer
of fabricated and machined
parts and products)

James W. Liken
President and
Chief Executive Officer

Candace L. Littell
President, C L Littell and
Associates (A consulting
firm specializing in health
policy, payment and
outcomes management)

Gerald E. McGinnis
Chairman of the Board

Craig B. Reynolds
Executive Vice President and
Chief Operating Officer

J. Paul Yokubinas
Private Investor

Respironics, Inc.

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