

2001 [ANNUAL REPORT]

We help people breathe easier.

Respironics is a global resource in the medical device market that provides innovative products and unique programs to health care providers to help them to grow and manage their businesses efficiently. In the home care, hospital and international markets, we provide programs that manage sleep disordered breathing, chronic obstructive pulmonary disease, asthma, infant care, heart failure and restrictive lung disorders.

[FINANCIAL HIGHLIGHTS]

(amounts in thousands except per share data)

Year Ended June 30	2001	2000	1999	1998	1997
Net Sales	\$ 422,438	\$ 368,184	\$ 357,571	\$ 351,576	\$ 314,542
Net Income (Loss)	33,571	5,752 ¹	23,061 ²	(1,825) ³	26,425 ³
Diluted Earnings (Loss) per Share	1.09	0.19 ¹	0.72 ²	(0.06) ³	0.82 ³
Diluted Shares Outstanding	30,886	30,004	31,956	32,098	32,352
Working Capital	171,985	155,095	155,336	137,550	110,566
Long-Term Obligations	80,055	108,095	99,374	69,316	48,985
Total Assets	367,948	352,577	343,585	318,320	294,769

¹ Includes the impact of restructuring charges, an 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 an 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.

1997



1998



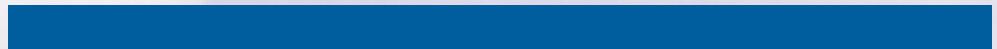
1999



2000



2001



1997



1998



1999



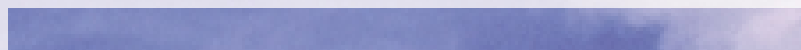
2000



2001



1997



1998



1999



2000



2001



¹ Includes the impact of restructuring charges, an 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 an 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.

DIVISION

PERCENT OF REVENUES

Homecare

This division gives Respirationics its dominant position in the home respiratory marketplace. We continue to drive the markets for sleep apnea, infant jaundice and apnea, chronic obstructive pulmonary disease and other respiratory afflictions. Our Homecare division holds the number one market share position in most of our product offerings.

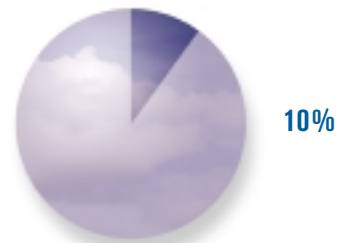
Division manufacturing plants are located near Pittsburgh, Pennsylvania and Atlanta, Georgia and in the Peoples Republic of China and the Philippines.



Hospital

Respirationics has made a major commitment of resources to provide solutions to the hospital market. We have built an organization comprised of individuals with many years of experience in research and development and sales and marketing in critical care ventilation. By focusing our skills and technology specifically on the needs of the hospital ventilation patient, we are changing the competitive landscape.

Division manufacturing is located in Carlsbad, California.



Asthma & Allergy Division

Focused on products that enhance the delivery of respiratory medications for asthma and other chronic respiratory diseases, this division sells to hospitals, homecare providers, physicians, pharmacies and consumers. The division focuses on supplemental medical education to help patients improve their quality of life.

Division facilities are located near Newark, New Jersey.



International

This division takes the products and programs from homecare, hospital and asthma to 96 countries around the world. We have sales and marketing personnel positioned in Europe, Central and South America and the Pacific Rim. Our international sales represented 20 percent of our overall corporate revenues for fiscal year 2001.

PROGRAMS



Sleep Management Program

Designed to help increase the awareness, diagnosis and treatment of Obstructive Sleep Apnea. This program offers validated tools to identify those who potentially suffer from the disease, helps to increase compliance with therapies, supports efforts to teach self management and offers benchmarking capabilities to homecare providers to raise overall results.



Chronic Respiratory Management Program

Designed to provide customers with the ability to manage chronic respiratory disease in the home through oxygen therapy and non-invasive ventilation. This program seeks to keep patients compliant with therapies to improve treatment, promote self-management and raise the quality of home care.



Infant Management Program

Designed to help healthcare providers with the identification and treatment of infant apnea and infant jaundice. By integrating support tools with noninvasive measurement of bilirubin and noninvasive monitoring of babies at risk for Sudden Infant Death Syndrome, this program focuses on infant care from the hospital to the home.



Ventilation Management Program

This program educates hospital personnel when to use noninvasive ventilation to reduce the rate of intubation and when to use our advanced technology critical care ventilator. The combination, when implemented appropriately, is designed for ease of use for the caregiver, improved patient outcomes and overall cost-effectiveness.



Asthma, Allergy and Sinusitis Management Program

Educational tools combined with superior products offer providers, physicians and patients the support needed to deliver treatment more efficiently, educate patients to manage their diseases, and identify when an increase or decrease of medication may be appropriate.

PRODUCTS

Comfort Series™ of Masks
REMstar® Family of CPAPs
Heated Humidification
Encore® SmartCard™ with FOSQ
REMview™ Sleep State Recorder
Alice® Sleep Diagnostic Systems
BiPAP® Duet® LX

BiPAP® Synchrony™ Ventilatory Support System
Stardust™ Portable Sleep Diagnostic Device
Inspiration® 626 Nebulizer
920M™ PLUS Pulse Oximeter
Millennium™ Oxygen Concentrator

BiliChek™ Noninvasive Bilirubin Analyzer
Hug 'n' Snug™ Neonatal Chest Splint
SmartMonitor® Infant Apnea Monitor
Wallaby® II Phototherapy System

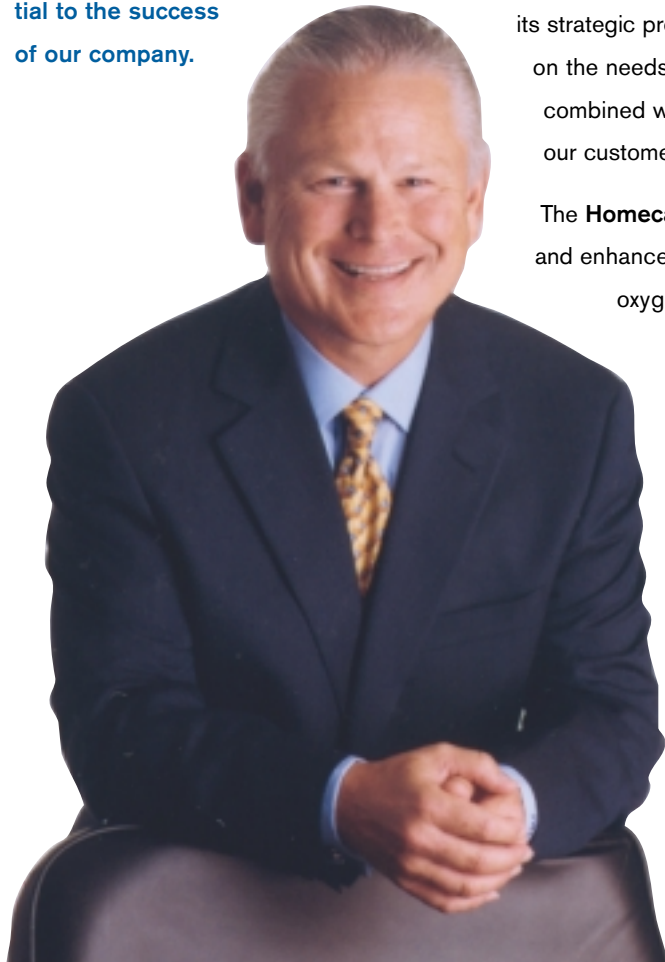
Esprit® Critical Care Ventilator
BiPAP® Vision™ Noninvasive Ventilator
Disposable masks and accessories

AsthmaPACK™ III Personal Asthma Care Kit
AsthmaMentor® Peak Flow Meter
OptiChamber®
RinoFlow® Micronized E.N.T. Wash



[LETTER TO OUR SHAREHOLDERS]

Respironics is focused on sleep disordered breathing and chronic respiratory disease. Our homecare sales force is known for its respiratory expertise, and has successfully implemented Power Programs™ and solution selling to intensify its relationship with our customers both domestically and internationally. Helping our customers grow and manage their business and helping patients improve their quality of life are essential to the success of our company.



Last year was exceptional. Respironics set the pace with a new approach to marketing and product innovations that allowed the company to reclaim its leadership position in the industry.

The year's results were gratifying. We achieved our stated financial goals as well as analysts' estimates: net sales growth of 15 percent and net income growth of 23 percent compared to the prior year. Recognition came from the investment community in the form of a stock price that increased 69 percent. We also were able to strengthen our balance sheet. We generated over \$50.0 million in cash from operations, reduced debt by over \$25.0 million and ended the current fiscal year with \$7.0 million more in cash on our balance sheet.

We have a lot of people to thank for last year's success. The Board of Directors provided valuable strategic direction. Our associates demonstrated their sense of pride and commitment to the company, resulting in the best performance in Respironics' 25-year history. Our people, products and programs – in each division – are clearly the finest in the industry, and I want to extend my appreciation to all who helped make this a great year.

Our momentum continues to build. Each of our four divisions has intensified its strategic product and program approach to help our customers focus on the needs of the patients they serve. Breakthrough technologies, combined with our Power Programs™ in each area, continue to help our customers grow and manage their businesses more efficiently.

The **Homecare** division continues to introduce new ways to increase and enhance patient therapy for sleep disorders, home ventilation, oxygen therapy, infant monitoring and infant jaundice.

Respironics understands that there is more to treatment than providing a medical device. Our family of products and program tools is easily integrated into treatment plans that result in increased compliance throughout the continuum of care.

The year's homecare product introductions focused directly on ensuring patient compliance. A new line of nasal masks – Respironics' Comfort Series™ – offers enhanced patient comfort and increases our ability to fit 100 percent of the market

regardless of the unique shape of a patient's face. Our new REMstar® family of CPAPs for the treatment of Obstructive Sleep Apnea (OSA) offers exceptional performance, sleek design and integrated heated humidification, a key element of compliance in the treatment of OSA. A unique tool incorporated into our products – the Encore® SmartCard™ with FOSQ (Functional Outcomes of Sleep Questionnaire) – monitors patient compliance and measures quality of life during therapy.

The **Hospital** division of Respirationics is changing the competitive landscape. The Esprit® critical care ventilator, designed to meet the demands of today's cost conscious environment, is sophisticated yet easy to use. It has the flexibility that allows it to be used across the range of patient care. The BiPAP® Vision™ noninvasive ventilator can easily be used in numerous settings in the hospital, reducing the rate of intubation and the likelihood of nosocomial pneumonia and thus reducing the average length of stay.

Our **Asthma & Allergy** division understands that the success of a patient's treatment plan is contingent on their ability to understand and manage their medication. AsthmaPACK™ III, an asthma management program combined with the necessary products to support patient compliance, was introduced with that understanding in mind. In addition to product introductions, distribution became a key element to the future success of this group. Over the past year, the Asthma & Allergy division expanded its distribution strategy to sell across the homecare, hospital and retail marketplace.

Respirationics' **International** division continues to be a strong contributor and a promising source of future growth. We continue to place significant emphasis on our global infrastructure and have increased our presence in the major markets of Europe, Central and South America and the Pacific Rim.

New sales strategies that integrate our Power Programs concept on a global level helped to increase Respirationics' presence in the respiratory medical device market worldwide. International customers enthusiastically accepted our focus on the compliance component of our Sleep Management Program. Over the last year we found the challenge of implementing these programs in various cultures and medical environments to be an exciting opportunity.

Vision

Respirationics is to be the leading worldwide resource in providing innovative products and unique programs to help manage and treat patients with sleep disorders and cardiopulmonary diseases.

As the leading resource, our company will:

- help clinicians treat their patients.
- help providers manage and grow their businesses.
- help patients improve their quality of life.

Core Practices

- Focus on driving the success of our customers' business.
- Innovate new products and programs around the needs of our customers and the markets we serve; if in doubt, ask our customers.
- Drive quality, cost and speed as a competitive advantage.
- Hire the best people; retain the best people; accept no less.
- Lead, energize and empower everyone to make decisions, accept responsibility and get things done.
- Create clear, simple methods to accomplish objectives; eliminate bureaucracy.
- Evaluate plans and progress continuously; enhance what is working and change what is not.
- Allocate resources (time, people, money) relentlessly to maximize our objectives, shareholder value and social responsibility.

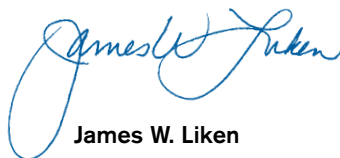
Committed to its success in the hospital market, Respironics focused the specialized skills of talented individuals on a menu of products developed specifically to change how hospitals manage patient ventilation needs. We are confident that this winning combination positions our hospital division for success.

Another international milestone was our participation in the creation of the Sleep and Respiratory Academy in Japan. The academy will train health professionals to manage sleep labs and score sleep studies. This positions Respironics to expand penetration by increasing the number of patients who can be diagnosed with OSA. There are many opportunities like this in the world waiting to be discovered. Our associates are talking to customers, learning their needs, asking the right questions and taking action – all over the globe.

Our research and development pipeline is full. In addition to next generation sleep disorder products, Homecare is actively working on the treatment of Congestive Heart Failure (CHF) patients. It is estimated that up to 50 percent of this patient population have breathing disorders during sleep. We are approaching this market to take advantage of three separate opportunities. The first is to treat those CHF patients with underlying OSA. Raising awareness of OSA in the cardiology community has already begun. The second opportunity focuses on Cheyne-Stokes Respiration where we have validated our technology in clinical testing and are working on obtaining the appropriate regulatory clearances. The third area is focused on improving heart performance and quality of life with positive airway pressure, an opportunity that leverages our current technology, and requires additional clinical research and regulatory clearances. We also are continuing our research in the treatment of insomnia. Our Hospital division is developing a new approach to humidification that includes easier operation and fewer connections with an effective absolute humidity output at any flow. Our innovations continue to break new ground.

As I look forward to the future I see an optimistic, focused company. We have regained the prominent position as the innovation leader in our industry. We clearly have dedicated, motivated people; our product innovations are leading the industry; and our Power Programs are providing a foundation upon which to build and grow.

I am confident that we will continue strong performance in fiscal 2002 and deliver another exceptional year to our shareholders.



James W. Liken
President and Chief Executive Officer

[2001 FINANCIAL REVIEW]

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[MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION]

Results of Operations

Net sales for fiscal year 2001 were \$422,438,000, representing a 15% increase in sales over the \$368,184,000 recorded in fiscal year 2000. Fiscal year 2000 net sales represented a 3% increase in net sales over the \$357,571,000 recorded in fiscal year 1999. 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 2001 and 2000 fiscal years. These product lines, along with ventilation devices, comprise the major part of the Company's homecare product offerings. Sales of the Company's hospital products, particularly the Esprit® ventilator, also contributed to the increase in sales in the 2001 fiscal year. During fiscal year 2000, sales of the Company's hospital products also increased compared to fiscal year 1999, including unit and dollar increases for the Company's Vision™ and Esprit® ventilators.

Sales for fiscal years 2001, 2000 and 1999 were adversely impacted by decreases in domestic 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 by the previously disclosed October 1, 1999 implementation of revised 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. For the fiscal year ended June 30, 2001, sales of non-invasive ventilatory support units for home use in the United States accounted for approximately two percent of total sales, compared to three percent in fiscal year 2000 and eight percent in fiscal year 1999.

Also affecting sales for the 2000 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 2000 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 described below, was 47% of net sales for fiscal years 2001 and 2000 as compared to 48% of net sales for fiscal year 1999. 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.

General and administrative expenses, including additions to the allowance for doubtful accounts, were \$50,126,000 (12% of net sales) for fiscal year 2001, \$48,755,000 (13% of net sales) for fiscal year 2000, and \$48,522,000 (14% of net sales) for fiscal year 1999. Fiscal year 2001 general and administrative expenses includes a previously disclosed addition to the allowance for doubtful accounts of \$1,200,000 (less than 1% of net sales) to address the potential uncollectability of the balance due from one of the Company's significant hospital distribution customers who ceased operations during the year. The fiscal year 2000 general and administrative expenses includes an 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 an addition of \$5,000,000 (1% of net sales) to the Company's allowance for doubtful accounts. This 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, credit and collection department expenses and other spending consistent with the growth of the Company's business. Partially offsetting these increases in expenses in fiscal years 2001 and 2000 were lower operating expenses due to the Company's restructuring efforts and in fiscal year 2000, 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. General and administrative expenses decreased as a percent of net sales over all three fiscal periods.

Sales, marketing and commission expenses were \$72,428,000 (17% of net sales) for fiscal year 2001 as compared to \$62,772,000 (17% of net sales) for fiscal year 2000 and \$60,899,000 (17% of net sales) for fiscal year 1999. The increases in absolute dollars of expense for fiscal years 2001 and 2000 were due primarily to increased sales (resulting in higher commission and bonus expenses) and increased sales, marketing, product support and service 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 in fiscal year 2000, decreased operating expenses in Germany discussed above.

Research and development expenses were \$15,281,000 (4% of net sales) for fiscal year 2001 as compared to \$16,815,000 (5% of net sales) for fiscal year 2000 and \$16,714,000 (5% of net sales) for fiscal year 1999. The decrease in absolute dollars of expense for the current fiscal year was due primarily to the timing of certain research and development projects and the impact of certain new products transitioning from development into production. Significant product development efforts are ongoing, and new product launches in all of the Company's major product lines took place in fiscal years 2001, 2000 and 1999 with additional new product launches scheduled for fiscal year 2002. In the current fiscal year, new products such as the REMstar® Plus and REMstar® Pro CPAP (Continuous Positive Airway Pressure) devices, the BiPAP® Synchrony™ Ventilatory Support System and two upgrades to the Company's Esprit® ventilator were introduced. Additional development work and clinical trials are being conducted in certain product areas outside the Company's current core products, including congestive heart failure.

During fiscal year 2000, the Company incurred a charge of \$29,200,000 related to a previously disclosed restructuring of its U.S. operations. This restructuring included facility closings and downsizings, a management realignment and a workforce reduction. 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 relate to inventory write-offs in connection with product rationalizations and have been reported as a separate component of cost of goods sold.

During fiscal year 2001, the Company incurred additional restructuring charges of \$800,000 related to the restructuring described above, primarily for asset write-downs to reflect decisions made regarding product, facility and systems rationalization and other direct expenses of the restructuring. Approximately \$700,000 of these charges related to inventory write-offs of discontinued products and have been reported as a separate component of cost of goods sold. Also during fiscal year 2001, the Westminster, Colorado facility, which had been closed in the restructuring, was sold for a gain of approximately \$2,000,000 and debt on the facility totaling approximately \$4,100,000 was repaid. See the Financial Condition, Liquidity and Capital Resources section of this Management's Discussion and Analysis and Note L 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, these costs were incurred to reduce the Company's German workforce and facilities. 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 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 restructuring charges and credits, the additions to the allowance for doubtful accounts, and the one-time reduction in income tax liability described above) was 40% for fiscal years 2001, 2000 and 1999. The Company's effective tax rate for fiscal year 2000 including the impact of the items listed above was 33%.

As a result of the factors described above, the Company's net income was \$33,571,000 (8% of net sales) or \$1.09 per diluted share for fiscal year 2001 as compared to \$5,752,000 (2% of net sales) or \$0.19 per diluted share for fiscal year 2000 and \$23,061,000 (6% of net sales) or \$0.72 per diluted share for fiscal year 1999.

Excluding the impact of the additions to the allowance for doubtful accounts, restructuring costs and credits and the one-time income tax liability adjustment, the Company's net income was \$33,581,000 (8% of net sales) or \$1.09 per diluted share for fiscal year 2001 as compared to \$25,363,000 (7% of net sales) or \$0.85 per diluted share for fiscal year 2000 and \$27,522,000 (8% of net sales) or \$0.86 per diluted share for fiscal year 1999.

Financial Condition, Liquidity and Capital Resources

The Company had working capital of \$171,985,000 and \$155,095,000 at June 30, 2001 and 2000, respectively. Net cash provided by operating activities was \$53,330,000 for fiscal year 2001, as compared to \$25,521,000 for fiscal year 2000 and \$36,562,000 for fiscal year 1999. The increase in cash flow from operating activities from fiscal year 2000 to fiscal year 2001 was primarily a result of higher earnings in fiscal year 2001. Lower earnings and increased inventory levels contributed to the decrease in cash flow from operating activities in fiscal year 2000 compared to fiscal year 1999.

Net cash used by investing activities was \$27,599,000, \$28,390,000 and \$25,629,000 for fiscal years 2001, 2000 and 1999, 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 2001 and 2000 fiscal years included additional purchase price paid for a previously acquired business pursuant to the terms of that acquisition agreement. Positive cash flows from operating activities and accumulated cash and short-term investments provided funding for investment activities in all years. See Note D to the Consolidated Financial Statements for additional information about long-term obligations.

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 and use 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. No shares were repurchased by the Company during fiscal year 2001. The Company has repurchased a total of 3,800,000 shares under this buyback program. At June 30, 2001, approximately 3,639,000 shares remained in treasury. 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"). During fiscal year 2001, the Company repaid \$20,000,000 on the revolving credit facility. As of June 30, 2001, the resulting interest rate on amounts outstanding under the revolving credit facility was approximately 4.45%. 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.

Note L to the Consolidated Financial Statements summarizes the restructuring charges discussed above, including the reserve balances relating to these charges that remain at June 30, 2001. 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 charges in respect to this restructuring.

The Company believes that projected positive cash flow from operating activities, the availability of additional funds under its revolving credit facility (totaling approximately \$41,800,000 at June 30, 2001), and its accumulated cash and short-term investments will be sufficient to meet its current and presently anticipated future needs for fiscal year 2002 for operating activities (including payments against restructuring accruals), investing activities and financing activities (primarily consisting of scheduled payments on long-term debt).

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, 2001, the Company had total long-term obligations, including the current portion of those obligations, of \$84,054,000. Of that amount, \$2,154,000 was in fixed rate obligations and \$81,900,000 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, 2001 weighted average interest rate of 4.44% to a weighted average interest rate of 4.88%), annual interest expense would be approximately \$364,000 higher based on the June 30, 2001 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. The Company also does business in various foreign currencies, primarily the German mark, the French franc, the Hong Kong dollar and the Chinese yuan. For the year ended June 30, 2001, sales denominated in currencies other than the U.S. dollar totaled \$16,422,000, or approximately 4% of total sales. For the year ended June 30, 2001, pre-tax income denominated in currencies other than the U.S. dollar totaled a loss of \$837,000, or approximately (-1%) of total pre-tax income. An adverse change of 10% in exchange rates would have resulted in a decrease in sales of \$1,642,000 and an increase in net loss of \$84,000 for the year ended June 30, 2001. 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.

Inflation

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

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal year 2003. Application of the nonamortization provisions of the Statement is expected to result in an increase in annual net income, the impact of which is not yet fully determined. During fiscal year 2003, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of July 1, 2002.

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, the success of programs, 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	2001	2000
Assets		
Current Assets		
Cash and short-term investments	\$ 27,320,910	\$ 19,594,484
Trade accounts receivable, less allowance for doubtful accounts of \$16,457,000 and \$17,975,000	98,078,344	96,733,695
Inventories	73,417,896	67,769,192
Prepaid expenses and other	10,937,110	6,568,646
Deferred income tax benefits	14,855,307	17,804,402
Total Current Assets	224,609,567	208,470,419
Property, Plant and Equipment		
Land	2,506,052	3,061,203
Building	8,509,596	12,292,111
Machinery and equipment	84,559,172	67,293,530
Furniture, office and computer equipment	56,011,341	49,142,950
Leasehold improvements	5,286,891	2,613,240
	156,873,052	134,403,034
Less allowances for depreciation and amortization	87,725,808	67,618,053
	69,147,244	66,784,981
Other Assets		
Goodwill	14,334,938	14,558,526
	59,856,714	62,762,589
	\$ 367,948,463	\$ 352,576,515
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 28,964,129	\$ 27,302,609
Accrued expenses and other	19,662,491	24,666,364
Current portion of long-term obligations	3,998,317	1,406,556
Total Current Liabilities	52,624,937	53,375,529
Long-term Obligations		
	80,055,378	108,095,093
Shareholders' Equity		
Common Stock, \$.01 par value; authorized 100,000,000 shares; issued and outstanding 34,013,785 shares at June 30, 2001 and 33,182,565 shares at June 30, 2000	340,138	331,826
Additional capital	121,720,289	110,795,650
Accumulated other comprehensive loss	(4,237,433)	(3,131,703)
Retained earnings	160,033,521	126,462,237
Treasury stock	(42,588,367)	(43,352,117)
Total Shareholders' Equity	235,268,148	191,105,893
	\$ 367,948,463	\$ 352,576,515

See notes to consolidated financial statements.

[CONSOLIDATED STATEMENTS OF OPERATIONS]

Year Ended June 30	2001	2000	1999
Net sales	\$ 422,437,862	\$ 368,184,110	\$ 357,570,743
Cost of goods sold	223,362,120	196,519,907	186,486,458
Cost of goods sold—restructuring charges	724,990	8,709,895	0
	198,350,752	162,954,308	171,084,285
General and administrative expenses	50,125,593	48,754,853	48,521,573
Sales, marketing and commission expenses	72,428,211	62,771,648	60,899,432
Research and development expenses	15,281,233	16,814,561	16,713,796
Restructuring (credit) charges	(1,908,581)	20,486,009	2,414,844
Interest expense	7,545,535	6,945,585	5,206,767
Other income	(1,029,283)	(1,394,231)	(1,127,847)
	142,442,708	154,378,425	132,628,565
Income Before Income Taxes	55,908,044	8,575,883	38,455,720
Income taxes	22,336,760	2,823,599	15,394,236
Net Income	\$ 33,571,284	\$ 5,752,284	\$ 23,061,484
Basic earnings per share	\$ 1.12	\$ 0.19	\$ 0.73
Basic shares outstanding	29,962,366	29,660,366	31,521,296
Diluted earnings per share	\$ 1.09	\$ 0.19	\$ 0.72
Diluted shares outstanding	30,886,043	30,003,755	31,956,088

See notes to consolidated financial statements.

[CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY]

	Common Stock Shares	Common Stock Amount	Additional Capital	Accumulated Comprehensive Income (Loss)	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Total
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
Shares sold pursuant to stock option and purchase plans	831,220	8,312	7,777,144	0	0	(94,329)	763,750	8,549,206
Income tax benefit from exercise of stock options	0	0	3,147,495	0	0	0	0	3,147,495
Comprehensive income (loss):								
Net income for the year ended June 30, 2001	0	0	0	0	33,571,284	0	0	33,571,284
Foreign currency translation adjustments	0	0	0	(1,105,730)	0	0	0	(1,105,730)
Total comprehensive income (loss)	0	0	0	(1,105,730)	33,571,284	0	0	32,465,554
Balance at June 30, 2001	34,013,785	\$ 340,138	\$ 121,720,289	(4,237,433)	\$ 160,033,521	3,639,169	\$ (42,588,367)	\$ 235,268,148

See notes to consolidated financial statements.

[CONSOLIDATED STATEMENTS OF CASH FLOW]

Year Ended June 30	2001	2000	1999
Operating Activities			
Net income	\$ 33,571,284	\$ 5,752,284	\$ 23,061,484
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	23,166,376	20,850,886	13,977,822
Amortization	5,171,364	5,855,565	5,253,215
Tax benefit from exercise of stock options	3,147,495	414,354	635,686
Provision for asset write-offs	0	11,694,013	0
Gain on sale of property, plant and equipment	(2,302,000)	0	0
Provision for bad debts	2,000,000	4,500,000	6,600,000
Provision (benefit) for deferred income taxes	2,949,095	(4,415,676)	3,540,822
Changes in operating assets and liabilities:			
Increase in accounts receivable	(3,344,649)	(1,980,488)	(14,868,087)
Increase in inventories and other current assets	(5,742,168)	(16,049,078)	(3,447,708)
(Increase) decrease in other assets	(1,944,496)	(5,538,934)	491,141
(Decrease) increase in accounts payable and accrued expenses	(3,342,355)	4,437,998	1,317,530
Net Cash Provided By Operating Activities	53,329,946	25,520,924	36,561,905
Investing Activities			
Purchase of property, plant and equipment	(28,236,464)	(27,304,289)	(25,629,332)
Proceeds from sale of property, plant and equipment	1,425,000	0	0
Acquisition of businesses	(787,580)	(1,085,407)	0
Net Cash Used By Investing Activities	(27,599,044)	(28,389,696)	(25,629,332)
Financing Activities			
Proceeds from long-term obligations	0	11,219,280	29,355,985
Reduction in long-term obligations	(25,447,952)	(2,059,199)	(1,450,212)
Issuance of common stock	8,549,206	1,519,938	2,854,104
Acquisition of treasury stock, net	0	(9,201,439)	(33,055,173)
Decrease in minority interest	0	(766,035)	(46,081)
Net Cash (Used) Provided By Financing Activities	(16,898,746)	712,545	(2,341,377)
Effect of Exchange Rate Changes on Cash			
	(1,105,730)	(1,900,690)	185,452
Increase (Decrease) in Cash and Short-Term Investments			
	7,726,426	(4,056,917)	8,776,648
Cash and short-term investments at beginning of period	19,594,484	23,651,401	14,874,753
Cash and Short-Term Investments at End of Period	\$ 27,320,910	\$ 19,594,484	\$ 23,651,401

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 title to product passes to the customer, generally upon shipment to a customer location.

Shipping and Handling Costs

Shipping and handling costs are expensed as incurred and are included in cost of goods sold.

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 (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," as amended, 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.

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 \$1,940,000 and \$1,224,000 at June 30, 2001 and 2000, 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, 2001, 2000 and 1999 were \$805,000, \$1,224,000 and \$975,000, 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 \$19,289,000 and \$15,514,000 at June 30, 2001 and 2000, 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 \$6,887,000 and \$6,657,000 at June 30, 2001 and 2000, respectively.

Comprehensive Income

Comprehensive income consists of net income and foreign currency translation adjustments and is presented in the Consolidated Statements of Shareholders' Equity.

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 Statements No. 137, "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133" and No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," FASB No. 133 was 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. Because of the Company's minimal use of derivative instruments, the adoption of FASB No. 133 on July 1, 2000 did not have a material financial impact on the Company.

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 became effective for the Company on April 1, 2001. SAB No. 101 did not have a material effect on the financial statements during fiscal year 2001.

In September 2000, the FASB issued Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." FASB No. 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral, and is effective for transfers and servicing of financial assets and extinguishment of liabilities occurring after March 31, 2001. FASB No. 140 did not have a material effect on the financial statements during fiscal year 2001.

In June 2001, the FASB issued Statements of Financial Accounting Standards No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal year 2003. Application of the nonamortization provisions of the Statement is expected to result in an increase in annual net income, the impact of which is not yet fully determined. During fiscal year 2003, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of July 1, 2002.

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, 2000 and 1999 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, France 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	2001	2000
Raw materials	\$ 20,738,160	\$ 21,560,937
Work-in-process	5,960,618	5,825,137
Finished goods	46,719,118	40,383,118
	\$ 73,417,896	\$ 67,769,192

NOTE D – LONG-TERM OBLIGATIONS

Long-term obligations consisted of the following:

June 30	2001	2000
Commercial Bank Credit Agreement, payable in one lump sum in May 2003 including interest at a floating rate (4.45% at June 30, 2001)	\$ 81,100,000	\$ 101,100,000
Other	2,953,695	8,401,649
	84,053,695	109,501,649
Less current portion	3,998,317	1,406,556
	\$ 80,055,378	\$ 108,095,093

Other long-term obligations in the above table includes Economic Development Revenue Bonds, Industrial Development Authority Loans and Redevelopment Authority Loans that are secured by mortgages on the Company's manufacturing facility in Murrysville, Pennsylvania. As of June 30, 2000, it also included a \$4,200,000 Revenue Bond that was 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. The Revenue Bond was repaid during the year ended June 30, 2001 when the Company's Westminster, Colorado facility was sold. 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, 2001, the Company was in compliance with these covenants. The Commercial Bank Revolving Credit Agreement includes a commitment fee, currently equal to 0.175%, 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

2002	\$ 3,998,317
2003	78,649,391
2004	489,223
2005	485,723
2006	110,745
Thereafter	320,296
Total	\$ 84,053,695

Interest paid was \$7,870,000, \$6,590,000 and \$5,228,000, for the years ended June 30, 2001, 2000 and 1999, respectively.

NOTE E – OPERATING LEASES

The Company leases its corporate headquarters, its service 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, 2001 are as follows:

Year Ending June 30	Amount
2002	\$ 4,781,000
2003	4,252,000
2004	3,765,000
2005	3,071,000
2006	2,481,000
Thereafter	8,199,000
Total	\$ 26,549,000

Total rent expense for the years ended June 30, 2001, 2000 and 1999, was \$4,605,000, \$3,841,000 and \$3,900,000, 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, 2001 and 2000.

NOTE G – INCOME TAXES

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

Year Ended June 30	2001	2000	1999
United States	\$ 56,058,248	\$ 10,020,446	\$ 39,228,046
Foreign	(150,204)	(1,444,563)	(772,326)
Total	\$ 55,908,044	\$ 8,575,883	\$ 38,455,720

Income taxes (benefit) consisted of:

Year Ended June 30	2001	2000	1999
Current:			
Federal	\$ 17,157,270	\$ 5,975,847	\$ 10,725,807
Foreign	(595,422)	184,800	(849,893)
State	2,825,817	1,078,628	1,977,500
Tax benefit from exercise of stock options	(3,147,495)	(414,354)	(635,686)
	16,240,170	6,824,921	11,217,728
Deferred:			
Federal	2,579,968	(3,775,687)	2,994,679
State	369,127	(639,989)	546,143
	2,949,095	(4,415,676)	3,540,822
Credit to additional paid-in-capital for tax benefit from stock option exercises	3,147,495	414,354	635,686
Total Income Taxes	\$ 22,336,760	\$ 2,823,599	\$ 15,394,236

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	2001	2000	1999
Statutory federal income tax rate	35%	35%	35%
Increases (decreases):			
State taxes, net of federal benefit	4	3	4
Foreign taxes	0	7	(2)
Tax credits	(1)	(8)	(2)
Tax liability adjustment	0	(19)	0
Non-deductible expenses (primarily goodwill amortization)	1	14	5
Other items, net	1	1	0
Effective Income Tax Rate	40%	33%	40%

Deferred income tax assets consisted of the following:

June 30	2001	2000
Allowance for bad debts	\$ 6,031,147	\$ 5,717,604
Depreciation	(738,198)	383,839
Inventory reserves	4,663,616	4,795,081
Restructuring reserves	840,349	1,490,248
Other	4,058,393	5,417,630
Total	\$ 14,855,307	\$ 17,804,402

The Company has approximately \$1,200,000 of deferred tax assets associated with net operating losses in Germany that have an indefinite carry forward period. Management believes that its future taxable income will more likely than not allow the Company to fully realize its deferred tax assets.

Undistributed earnings of the foreign subsidiaries on which no U.S. income tax has been provided amounted to \$9,731,650 at June 30, 2001.

Income taxes paid were \$19,533,062, \$3,286,051 and \$9,352,998, for the years ended June 30, 2001, 2000 and 1999, 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 that 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 for a period up to 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.

In November 2000, the shareholders of the Company approved the 2000 Stock Incentive Plan (the "2000 Plan"). The 2000 Plan is intended to replace the 1992 Plan and the Directors' Plan; however, non-employee directors will only utilize the 2000 Plan once the Directors' Plan shares are exhausted. The 2000 Plan provides options to eligible employees, consultants and non-employee directors to purchase common stock for a period up to ten years at option prices not less than fair market value at the time of the grant. Options become exercisable at such times or upon the occurrence of such events as determined by the Committee administering the 2000 Plan. In the case of employees, options may also include cash payment rights and restricted shares of the Company's common stock may also be awarded. Non-employee directors will receive annual grants in amounts and with vesting similar to those under the Directors' Plan described above. The 2000 Plan has a total of 1,400,000 shares 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	2001	2000	1999
Option Shares			
Outstanding at beginning of period	2,584,479	1,950,861	1,843,278
Granted:			
Price range (\$16.13 – \$29.93)	604,000		
Price range (\$7.94 – \$14.44)		1,092,247	
Price range (\$12.00 – \$19.13)			498,906
Exercised:			
Price range (\$4.50 – \$24.63)	(833,840)		
Price range (\$2.81 – \$16.25)		(183,233)	
Price range (\$1.38 – \$24.63)			(320,683)
Canceled	(180,650)	(275,396)	(70,640)
Outstanding at end of period (Weighted average price \$13.64)	2,173,989	2,584,479	1,950,861
Exercisable at end of period	647,692	1,100,821	1,187,288
Shares available for future grant	908,861	1,332,211	2,149,111

The per share weighted-average fair value of stock options granted during 2001, 2000 and 1999 was \$10.39, \$4.81 and \$6.04, respectively, on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2001	2000	1999
Expected volatility	57.1%	56.8%	52.7%
Expected dividend yield	none	none	none
Risk-free interest rate	5.0%	6.0%	6.0%
Expected life of stock options	5	5	5

The Company applies APB Opinion No. 25, as amended, 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:

	2001	2000	1999
Net earnings:			
As reported	\$ 33,571,284	\$ 5,752,284	\$ 23,061,484
Pro forma	30,202,284	3,365,284	21,391,820
Diluted earnings per share:			
As reported	1.09	0.19	0.72
Pro forma	0.98	0.11	0.67

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.

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	2001	2000	1999
Net Sales			
Homecare	\$ 357,223,198	\$ 307,644,676	\$ 299,685,569
Hospital	43,235,211	38,595,151	34,943,095
Asthma and Allergy	21,979,453	21,944,283	22,942,079
Net Sales	\$ 422,437,862 	\$ 368,184,110	\$ 357,570,743

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

Year Ended June 30	2001	2000	1999
Net Sales			
United States:			
Unaffiliated customers	\$ 400,361,214	\$ 342,454,391	\$ 324,070,103
Interarea transfers	17,644,344	81,490,976	100,953,047
	418,005,558	423,945,367	425,023,150
Foreign:			
Unaffiliated customers	22,076,648	25,729,719	33,500,640
Interarea transfers	9,882,463	8,071,010	6,505,547
	31,959,111	33,800,729	40,006,187
Elimination – Transfers	27,526,807	89,561,986	107,458,594
Net Sales	\$ 422,437,862	\$ 368,184,110	\$ 357,570,743
Operating Profit			
United States	\$ 72,736,494	\$ 53,214,768	\$ 54,013,927
Foreign	1,124,102	2,435,236	2,467,559
Operating Profit	73,860,596	55,650,004	56,481,486
Corporate expense	10,407,017	40,128,536	12,818,999
Interest expense	7,545,535	6,945,585	5,206,767
Income Before Income Taxes	\$ 55,908,044	\$ 8,575,883	\$ 38,455,720

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	2001	2000
Identifiable Assets		
United States	\$ 303,913,079	\$ 289,065,119
Foreign	21,859,167	26,112,510
	325,772,246	315,177,629
Corporate assets (cash and short-term investments and deferred income taxes)	42,176,217	37,398,886
Total Assets	\$ 367,948,463	\$ 352,576,515
Total Assets		
United States	\$ 339,944,539	\$ 318,322,112
Foreign	28,003,924	34,254,403
Total Assets	\$ 367,948,463	\$ 352,576,515
Total Liabilities		
United States	\$ 131,137,896	\$ 157,889,536
Foreign	1,542,419	3,581,086
Total Liabilities	\$ 132,680,315	\$ 161,470,622

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. During the fiscal year ended June 30, 2001, one customer accounted for 11% of net sales. No single customer accounted for 10% or more of net sales for the fiscal years ended June 30, 2000 or 1999.

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 \$1,307,000, \$1,528,000 and \$1,270,000, for the years ended June 30, 2001, 2000 and 1999, respectively. The Company's current benefit program does not provide any other postretirement benefits to employees.

NOTE K – 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 previously described by filings of the Company. 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 \$22,670,000 and \$20,928,000 at June 30, 2001 and 2000, 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 Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," which was effective for such transfers that occurred after March 31, 2001) and therefore, these receivables are not recorded on the Company's financial statements.

NOTE L – 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. Except as discussed below, all major elements of the restructuring were completed during fiscal year 2000.

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
Restructuring charges (net) ¹	(200,000)	1,000,000	0	800,000
Cash expenditures	(1,500,000)	0	(900,000)	(2,400,000)
Noncash expenditures	0	(2,500,000)	0	(2,500,000)
Balance at June 30, 2001	\$ 1,500,000	\$ 5,700,000	\$ 200,000	\$ 7,400,000

¹ During the period ended March 31, 2001, the Company also recorded a gain of approximately \$2,000,000 on the sale of the Westminster, Colorado facility.

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).

During fiscal year 2001, the Westminster, Colorado facility was sold as planned, and a gain of approximately \$2,000,000 was recorded on the sale. Also during fiscal year 2001, final restructuring expenses of \$800,000 were incurred, primarily for inventory write-offs of discontinued products.

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, 2001 are expected to be paid out during fiscal year 2002.

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 M – 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. No shares were repurchased during fiscal year 2001. The Company has repurchased a total of 3,800,000 shares under this buyback program. 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 N – SPECIAL ITEMS

In March 2001, one of the Company's significant hospital distribution customers ceased operations. The Company recorded an increase to the allowance for doubtful accounts of \$1,200,000 to address the potential uncollectability of the balance due from this customer.

As previously disclosed, 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 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 increase to the allowance for doubtful accounts during fiscal year 2000. In November 2000, the Company reached a settlement under which the customer paid a portion of the petition-date balance. The remaining petition-date balance will constitute a claim in the continuing bankruptcy case.

NOTE O – EARNINGS PER SHARE

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

Year Ended June 30	2001	2000	1999
Numerator:			
Net Income	\$ 33,571,284	\$ 5,752,284	\$ 23,061,484
Denominator:			
Denominator for basic earnings per share – weighted average shares	29,962,366	29,660,366	31,521,296
Effect of Dilutive Securities – Stock Options	923,677	343,389	434,792
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	30,886,043	30,003,755	31,956,088
Basic Earnings Per Share	\$ 1.12	\$ 0.19	\$ 0.73
Diluted Earnings Per Share	\$ 1.09	\$ 0.19	\$ 0.72

NOTE P – QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Following are the unaudited quarterly results of operations for the fiscal years ended June 30, 2001 and 2000:

2001 Three Months Ended	September 30	December 31	March 31	June 30
Net Sales	\$ 92,064,000	\$ 104,548,000	\$ 110,208,000	\$ 115,618,000
Gross Profit Including Restructuring Costs	43,402,000	49,436,000	50,787,000	54,726,000
Gross Profit Excluding Restructuring Costs	43,402,000	49,436,000	51,512,000	54,726,000
Restructuring Costs (Credits) – Net	0	0	(1,184,000)	0
Net Income	6,291,000	8,010,000	9,313,000	9,957,000
Basic Earnings Per Share	0.21	0.27	0.31	0.33
Diluted Earnings Per Share	0.21	0.26	0.30	0.32
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
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

[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, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended June 30, 2001. 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, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2001, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Ernst & Young, LLP

Pittsburgh, Pennsylvania

July 24, 2001

[FIVE-YEAR SUMMARY]

(amounts in thousands except ratios and per share data)

Year Ended June 30	2001	2000	1999	1998	1997
Per Share Data					
Net income (loss)	\$ 1.09	\$ 0.19 ²	\$ 0.72 ⁶	\$ (0.06) ⁸	\$ 0.82 ⁸
Book value at year end	7.75	6.49	5.89	6.14	6.03
Results of Operations					
Net sales	\$ 422,438	\$ 368,184	\$ 357,571	\$ 351,576	\$ 314,542
Cost of goods sold	224,087 ¹	205,230 ¹	186,487	180,650	161,283
Income before income taxes	55,908	8,576 ³	38,456 ⁶	3,864 ⁸	43,984 ⁸
Net income (loss)	33,571	5,752 ²	23,061 ⁶	(1,825) ⁸	26,425 ⁸
Financial Position at Year End					
Working capital	\$ 171,985	\$ 155,095	\$ 155,336	\$ 137,550	\$ 110,566
Property, plant and equipment (net)	69,147	66,785	61,230	48,924	42,094
Total assets	367,948	352,577	343,585	318,320	294,769
Long-term obligations	80,055	108,095	99,374	69,316	48,985
Shareholders' equity	235,268	191,106	194,521	200,840	191,056
Other Data					
Capital expenditures	\$ 28,236	\$ 27,304	\$ 25,629	\$ 20,013	\$ 11,186
Depreciation and amortization	28,338	26,706	19,231	14,016	10,194
Number of employees at year end	2,056	1,940	1,988	2,045	2,094
Diluted shares outstanding	30,886	30,004	31,956	32,098	32,352
Selected Financial Ratios					
Gross profit as a percent of sales	47% ⁴	47% ⁴	48%	49%	49%
Income before income taxes as a percent of sales	13%	11% ⁵	13% ⁷	13% ⁹	15% ⁹
Effective income tax rate	40%	40% ⁵	40% ⁷	40% ⁹	40% ⁹
Net income as a percent of sales	8%	7% ⁵	8% ⁷	8% ⁹	9% ⁹
Return on average equity	16%	13% ⁵	14% ⁷	14% ⁹	16% ⁹
Debt to equity ratio	34%	57%	51%	35%	26%
Current ratio	4.27x	3.91x	4.18x	3.90x	2.90x

¹ Includes the impact of restructuring charges, totaling \$725,000 and \$8,710,000 in fiscal years 2001 and 2000, respectively.

² Includes the impact of restructuring charges, an 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.

³ Includes the impact of restructuring charges and an 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, an addition to the allowance for doubtful accounts, and a one-time reduction in income tax expense, where applicable.

⁶ Includes the impact of an 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 an 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 12, 2001 at 4:30 p.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 18, 2001, there were 2,495 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, 2001	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	\$ 19.13	\$ 34.00	\$ 30.75	\$ 35.13
Low	\$ 16.25	\$ 15.69	\$ 22.94	\$ 26.19
Fiscal Year Ended June 30, 2000	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	\$ 15.13	\$ 8.69	\$ 15.94	\$ 18.00
Low	\$ 8.13	\$ 7.50	\$ 7.94	\$ 11.25

Form 10-K

Copies of the Respiroics, Inc. annual report on Form 10-K can be found on the Company's web site as filed with the Securities and Exchange Commission, otherwise copies will be mailed without charge upon request. Address requests to Dorita Pishko, Corporate Secretary, Respiroics, Inc., 1501 Ardmore Boulevard, PA 15221-4401.

Shareholder Inquiries/Financial Data

Shareholders, analysts or others seeking information about the Company are encouraged to contact Daniel Bevevino, Vice President and Chief Financial Officer, or James Woll, Vice President – Corporate Controller, Respiroics, Inc., 1501 Ardmore Boulevard, PA 15221-4401.

Market Makers

ABN AMRO Securities (USA) Inc
Archipelago, L.L.C.
Attain-ECN
B-Trade Services LLC
BrokerageAmerica Inc.
THE BRUT ECN, LLC
Credit Suisse First Boston Corporation
First Security Van Kasper
Fleet Trading/Div Fleet Secs.
Herzog, Heine, Geduld, Inc.
Instinet Corporation
Island System Corporation
Jefferies & Company, Inc.
Knight Securities L.P.
MARKETXT, Inc.
McDonald & Company Sec., Inc.
Midwest Res. First Tennessee
Parker/Hunter Inc.
REDIBook ECN LLC
Schwab Capital Markets
SG Cowen Securities
Sherwood Securities Corp.
Southwest Securities Inc.
Spear, Leeds & Kellogg

Research Coverage

ABN AMRO Incorporated
Banc of America Securities
Credit Suisse First Boston Corporation
LJR Great Lakes Review
McDonald Investment Inc.
Midwest Research
Parker/Hunter Inc.
SG Cowen Securities
Wells Fargo Van Kasper

Transfer Agent and Registrar

Mellon Investor Services LLC,
85 Challenger Road, Ridgefield Park, NJ 07660
or www.melloninvestor.com

General Counsel

Steven P. Fulton

Auditors

Ernst & Young LLP, Pittsburgh, PA 15219

[OFFICERS AND DIRECTORS]

Executive Officers

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Chairman of the Board

James W. Liken
President and
Chief Executive Officer

Daniel J. Bevevino
Vice President and
Chief Financial Officer

Steven P. Fulton
Vice President and
General Counsel

Susan A. Lloyd
Vice President, Asthma
and Allergy Division

John L. Miclot
Senior Vice President,
President, Homecare 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

William R. Decker
Vice President
Human Resources

John A. Frank
Vice President Marketing,
Homecare Division

Gardner J. Kimm
Vice President Engineering,
Hospital Division

Douglas M. Mechlenburg
Vice President Engineering,
Homecare Division

William R. Thompson
Vice President Sales,
Homecare Division

Richard J. Umlor
Vice President Sales
and Marketing,
Hospital Division

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

Peter S. White
Vice President EAME,
International Division

Board of Directors

Daniel P. Barry
Private Investor

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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)

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

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President and
Chief Executive Officer

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

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Chairman of the Board

Sean McDonald
President and
Chief Executive Officer,
Precision Therapeutics
(A biomedical company
providing comprehensive,
personalized cancer
management information)

Craig B. Reynolds
Executive Vice President and
Chief Operating Officer

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