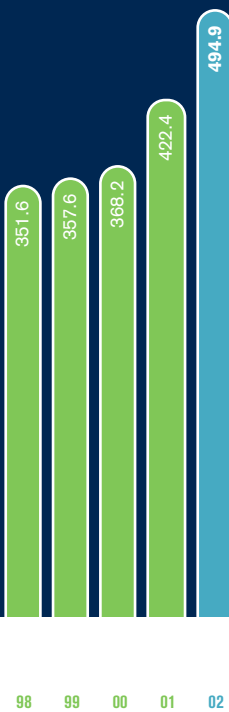


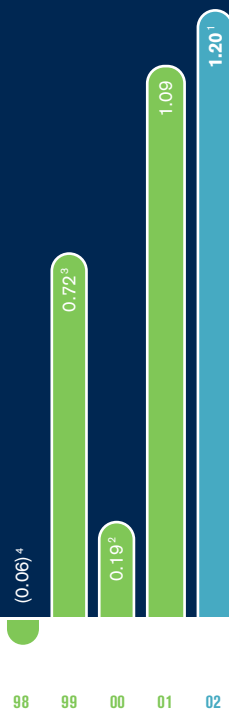
innovation leadership vision



2002 Annual Report



**Net Sales**  
dollars in millions



**Diluted Earnings (Loss) Per Share**  
dollars



**Shareholders' Equity**  
dollars in millions

<sup>1</sup> Includes the impact of purchase accounting adjustment, integration and restructuring charges, and impairment charge which totaled \$0.12 per share in fiscal year 2002.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> 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.

**Corporate Profile** Respironics is a global resource in the medical device market that provides innovative products and unique programs to the healthcare providers to help them to grow and manage their businesses efficiently. In the homecare, 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.

# Homecare

This division is the dominant force in the home respiratory marketplace and holds the number one position in sleep therapy. As the sleep leader, the homecare division is driving the market with unique products and programs focused on solving clinical and economic issues for their customers and pioneering new markets to treat congestive heart failure and insomnia. With the addition of Children's Medical Ventures, Inc. to our infant management business, the division is the market leader for developmental care products and programs that improve the quality of care for premature infants in the hospital and home setting.

*Division manufacturing plants are located near Pittsburgh, Pennsylvania and Atlanta, Georgia and in the People's Republic of China and the Philippines. Children's Medical Ventures facilities are located near Boston, Massachusetts.*

## Sleep Management

Designed to help increase the awareness, diagnosis and treatment of Obstructive Sleep Apnea. This program combines marketing, education and the latest product technologies to enable home care providers and sleep professionals to increase patient identification, teach and promote self-management and track individual treatment in order to raise overall compliance with the therapy and improve quality of life.

## Chronic Respiratory Management

Designed to provide customers with the ability to help identify and manage chronic respiratory disease in the home with spirometry, oximetry, oxygen therapy, noninvasive ventilation and devices to aid the delivery of respiratory medications. This program seeks to keep patients compliant with their therapies and to improve treatment, promote self-management and raise quality of life.

## Neonatal and Infant Care

Designed to promote and raise developmental care standards in neonatal intensive care units and help healthcare providers with the identification and treatment of infant apnea and infant jaundice. By integrating Children's Medical Ventures' hands-on education programs and innovative products with noninvasive bilirubin technology and state-of-the-art monitoring, this program offers healthcare providers a mix of approaches to care for premature infants and neonates.

## Products

Comfort Series™ of Masks  
REMstar® Family of CPAPs  
Heated Humidification  
Encore® Pro SmartCard™ & Data Management  
BiPAP® Pro with Bi-Flex™  
REMview™ Sleep State Recorder  
Stardust® Portable Sleep Diagnostic Device  
Alice® Sleep Diagnostic System  
Watch\_PAT 100™ Sleep Diagnostic System

## Products

BiPAP® Synchrony™ Ventilatory Support System  
Inspiration® 626 Nebulizer  
Millennium™ Oxygen Concentrator  
PuraChek™ Oxygen Analyzer  
PLV®-100 Portable Volume Ventilator

## Products

Neonatal Developmental Care Products  
BiliChek® Noninvasive Bilirubin Analyzer  
SmartMonitor® 2 Infant Apnea Monitor  
Wallaby® II Phototherapy System



83%

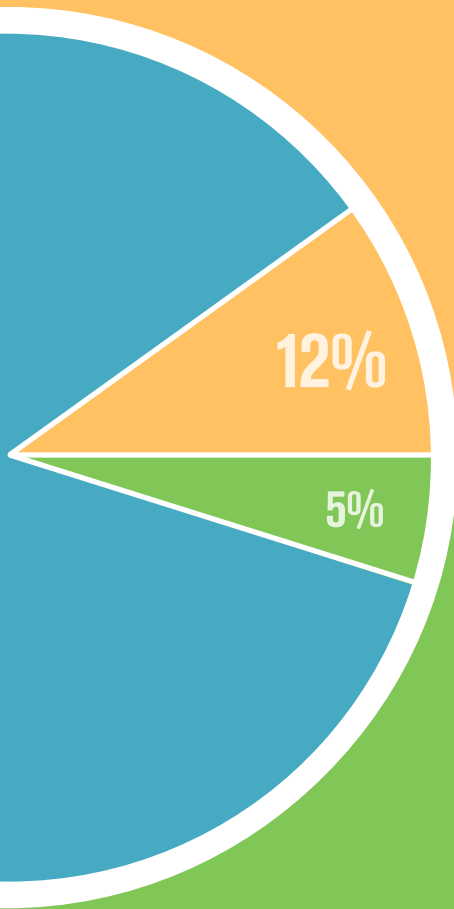
# International

This division gives Respirationics global reach by taking products and programs from homecare, hospital and asthma and allergy to 101 countries around the world. Expanded sales and marketing talent in Europe, Central and South America and the Pacific Rim provide solutions customized to the specific needs of their customers and the markets they serve. With the acquisition of a controlling interest in Fuji-RC Co., Ltd., this division is positioned to be the market leader in providing respiratory products and programs in Japan's home and hospital settings.

## Hospital

This division is focused on advancing the science and practice of cardiorespiratory care. With the integration of Novamatrix Medical Systems, Inc., Respirationics now offers a true single source for invasive and noninvasive cardiorespiratory diagnostic and therapeutic resources. With an expanded talent base and full research and development pipeline, this division is positioned to best meet the needs of clinicians and enhance patient treatment in the critical care and sub-acute areas of the hospital.

*Division manufacturing plants are located in Carlsbad, California and Wallingford, Connecticut.*



### Cardiorespiratory Care

Designed to help clinicians treat their hospitalized patients by providing innovative invasive and noninvasive cardiorespiratory diagnostic, monitoring and therapeutic ventilators. Programs and products are designed to help improve clinical and financial outcomes with less risk and greater patient comfort. Two key program offerings are *Total Ventilation Solutions* and the *Oximetry Conversion Program* which reduce operational costs, provide educational tools and hands-on support for clinicians and other hospital personnel.

### Products

Esprit® Critical Care Ventilator  
BiPAP® Vision™ Noninvasive Ventilator  
Disposable Masks and Accessories  
NICO® Noninvasive Cardiac Output Monitor  
CO2SMO® Plus! Respiratory Profile Monitor  
CO2SMO® Mainstream Capnograph & Pulse Oximeter  
MARSpO2™ Motion Artifact Rejection System Pulse Oximeter

### Asthma, Allergy and Sinusitis Management

Designed to offer comprehensive educational tools and user-friendly products for pediatric and adult asthma disease management in the hospital, home or retail setting. Zoey and the Zones, a program designed for children with asthma, informs and educates children creatively through the use of imaginary characters. Accompanying material for parents presents treatment and therapy strategies in a practical no-nonsense manner. Educational tools combined with superior products offer providers, physicians and patients of all ages the support they need to manage asthma more effectively.

### Products

Zoey™ and the Zones Pediatric Asthma Care Products & Programs  
AsthmaPACK™ III Personal Asthma Care Kit  
AsthmaMentor® Peak Flow Meter  
OptiChamber® Advantage Valved Holding Chamber  
Ventstream® Reusable High-Efficiency Nebulizer  
MisterNeb™ Compressor Nebulizer System

## Asthma & Allergy

This division is focused on empowering healthcare providers and their patients to better manage asthma, allergies and sinusitis with education, unique programs and innovative products that help improve outcomes. With products that enhance the delivery of respiratory medications for pediatrics and adults with asthma and other chronic respiratory diseases, Asthma and Allergy is expanding its reach to patients at all points of care including the hospital, home, managed care organizations and retail.

*Division facilities are located near Newark, New Jersey.*



# Letter to our Shareholders

This past fiscal year has marked a change in Respiroics. We have moved beyond surviving; we now are in a position that enables us to grow strategically as a global force in the respiratory marketplace. This was not the case three years ago. Right now, no other company in this business has the breadth and the depth of our product or program offerings. No other company offers its customers the unique resources that we can. I believe Respiroics is strong and will continue to be the leader into the future.

We achieved our financial goals for fiscal year 2002. Net sales of \$494.9 million reflect a 17 percent increase over last year's \$422.4 million. Net income, including the impact of one-time charges, increased to \$38.4 million. Excluding these charges, primarily associated with acquisitions we completed during the fourth quarter, net income increased 26 percent to \$42.3 million or \$1.32 per share. And, the company and its stock price remained steadfast in an uncertain and fluctuating market.

The financial results are impressive, but the story behind the numbers is what will keep our company growing stronger and more successful each year. The year was one in which Respiroics dominated its key respiratory markets worldwide. Acquisitions, product development and our Power Programs™ clearly strengthened our strategic position.

Our customers' success is critical to sustaining our success. In 2002, each of our four divisions executed solid business plans focused on growth and support of their customers. By offering customers practical solutions and resources to help grow and manage their business, we continue to strengthen customer relationships and our market presence. The key to our strategies is to offer products and programs that provide solutions to help clinicians treat their patients, keeping them compliant on our therapies. By working closely with our customers around the world, we are able to develop and implement programs designed to increase efficiencies and improve clinical and financial outcomes.

The Homecare Division had an outstanding performance this year and built the foundation for future success. The division enjoyed a 19 percent increase in sleep therapy and an 18 percent increase in home oxygen revenues, the division's two largest product segments. These achievements are attributable to the success of our program approach to the marketplace; our superior technology led by our REMstar® platform of sleep therapy devices with integrated heated humidification; and the effectiveness of our respiratory sales force. This sales force clearly dominated the home care provider market place, and during the year we created a sleep diagnostic sales team focused specifically on enhancing our relationships with sleep labs, physicians and clinicians.

Our Comfort Series™ masks have changed the patient interface market. Our offerings can now fit 100 percent of the patients 100 percent of the time. This is a key element for leadership in the obstructive sleep apnea market, and we will continue to drive innovation in this area.

**Business Objective** As we begin fiscal year 2003, Respiroics' financial objective will be to increase revenues to exceed \$600 million while continuing to achieve our earnings growth targets.

During this past year, the Homecare Division integrated Children's Medical Ventures, Inc. into its operations. Children's brought with it widely recognized and respected developmental care products and educational programs to nurture premature infants. Respiroics' existing infant care products – for jaundice management and apnea monitoring – complemented the developmental care offerings. The combination has resulted in strengthened sales channels, a stronger market position and broadened and enhanced product offerings for infants and neonates.

The Hospital Division had an exciting year of expansion and evolution. The division achieved 21 percent organic growth in fiscal 2002, and with the recent investments in this area, we anticipate continued strong growth into the future.

Our acquisition of Novamatrix Medical Systems, Inc. expanded our reach into hospitals around the world. We nearly doubled our hospital sales force and enhanced the critical mass of available products for cardiorespiratory monitoring and ventilation. More than anything, the acquisition allows Respiroics to offer more solutions to our customers.

The Esprit® Critical Care Ventilator continues to gain momentum, and our BiPAP® Vision™ Noninvasive Ventilator is the market leader for this type of therapy. The combination of these ventilation technologies with the cardiorespiratory monitors acquired from Novamatrix (especially NICO®, a noninvasive cardiac output monitor) clearly differentiates Respiroics in the hospital marketplace.

The Hospital Division now offers its customers two programs to help contain operational costs – Total Ventilation Solutions and the Oximetry Conversion Program. By providing hospitals critical diagnostic, therapeutic and educational tools designed to shorten hospital stays and improve patient outcomes, the division is strengthening its presence and increasing its visibility worldwide.

The infrastructure for the Hospital Division is in place. We have a strong monitoring and ventilation product line. We have an expanding talent base. And we have the sales channels positioned to further penetrate the hospital market.

Respiroics' Asthma and Allergy Division continues to focus on therapies and compliance for patients who suffer with asthma, allergies and sinusitis. This past year, however, the emphasis was on the pediatric asthma market. We are introducing Zoey™ and the Zones – consumer-friendly, cartoon mascots – so that children now have characters that help them to better understand and manage their diseases. This program is designed for use by hospitals, home care providers and managed care organizations and is also available through retail chains. The program offers greater visibility in all of our markets, and provides asthmatic children with a greater feeling of acceptance and control of their disease. With existing products and educational programs, our new focus on the pediatric market, and diversified distribution channels, we look for stable growth of this division into the future.

**Novamatrix** The April 2002 acquisition of Novamatrix Medical Systems, Inc. was a significant step forward for our hospital division. This opportunity created a perfect blend of cardiorespiratory monitoring technologies and hospital therapeutic products. It positions Respiroics as a provider of a total ventilation solution allowing the hospital division to better serve its customers.

# vision

Respironics 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, and
- > help patients improve their quality of life.



SLEEP  
MANAGEMENT <sup>SM</sup>



CHRONIC RESPIRATORY  
MANAGEMENT <sup>SM</sup>



CARDIORESPIRATORY CARE <sup>SM</sup>



ASTHMA, ALLERGY &  
SINUSITIS MANAGEMENT <sup>SM</sup>



NEONATAL &  
INFANT CARE <sup>SM</sup>

- > **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 and money) relentlessly to maximize our objectives, shareholder value and social responsibility.

# core practices

Every part of the world healthcare market presents a unique challenge, and international growth varies according to the needs and healthcare infrastructure of the individual regions. In Germany, the world's second largest sleep therapy market, reimbursement changes dampened market potential. Our German revenues did not meet growth expectations. In international markets excluding Germany, Respiroics' sleep therapy sales increased 24 percent. Separately, noninvasive ventilation revenues increased by 19 percent.

We continue to focus internationally on Europe, Central and South America, and the Pacific Rim. We have increased our commitment in these areas with a growing number of sales and marketing personnel. Our programs have been widely adapted and are particularly successful in Japan, the United Kingdom, France and Hong Kong. The content and execution of our Power Programs are customized to meet specific market needs based on the country, culture, maturity of the market and reimbursement model.

Programs in Japan support the Sleep and Respiratory Academy to train healthcare professionals to manage sleep labs and score sleep studies. The focus of programs in Hong Kong is web-based patient management. France's programs are built around compliance and outcomes and the United Kingdom is focused on patient and equipment management programs.

This past year, Respiroics acquired a controlling interest in Fuji-RC Co., Ltd. to reinforce the International Division's strong market position in the Japanese cardiorespiratory market. Fuji-RC – a long-standing customer – has been a leading provider of respiratory products and services in Japan. The acquisition of this dynamic company, along with the favorable reimbursement climate, and early stage market penetration in sleep disorders, positions us for future business growth in this part of the world.

A key element of Respiroics' strategic initiative is to grow the company through acquisition. The acquisitions of Novamatrix and Fuji-RC are perfect examples of how targeted acquisitions have expanded our product offering, improved our sales channel and enhanced our presence in attractive international markets. Another significant component of the Novamatrix acquisition was the addition of Children's Medical Ventures. These developmental care products and services place Respiroics' infant management business at the forefront of the neonatal and infant care markets. We will continue to target acquisitions that support our focused growth strategies.

Our research and development efforts continue to be a cornerstone for the company's success. Fiscal 2002 was our most productive year ever in terms of new product development and introductions, across all divisions. We introduced next generation therapeutic and interface devices for the sleep therapy market. Enhancements to the Esprit Ventilator were introduced to the hospital market throughout the year as well as new interface devices for noninvasive ventilation. Enhancements to existing devices, as well as new consumer-friendly products and programs, are being introduced from our Asthma and Allergy Division.

**Fuji-RC** Acquiring a controlling interest in Fuji-RC Co. Ltd., a long-standing partner and customer, strengthens our presence in Japan's sleep market. Japan's large population, increasing awareness of sleep disorders and recent medical reimbursement coverage make Fuji-RC a dynamic element in Respiroics' international growth strategy.

Fiscal 2003 shows signs of being equally as promising with continued product and program introductions into our more traditional markets, as well as further exploration in congestive heart failure, insomnia and other related sleep disorders. The congestive heart failure market continues to be an exciting area where our efforts are focused on an awareness and education campaign directed towards cardiologists to promote the link between sleep disordered breathing, heart failure and other cardiovascular diseases. Ultimately, our long-term goal is to provide a comprehensive offering of screening, diagnostic, treatment and monitoring devices and tools to manage and help improve patients' respiratory and cardiovascular condition.

Recently, Respironics completed and moved into its new Corporate Services Facility. The new facility supports a campus environment and is located adjacent to the company's homecare division facility. The corporate group, including finance and accounting, legal, customer satisfaction, information technology and other central functions, is committed to providing support to the company's divisions with the goal of helping the divisions grow their businesses and prepare for the future. The building layout creates an upbeat, high-energy environment that encourages the exchange of information and open communication among employees. These are all key elements of the company's culture.

I want to thank our Board of Directors for its strategic direction and support. I would also like to thank all of our associates – worldwide – who have worked so hard this last year to strengthen our company.

Our company is positioned for future growth, and I am confident in our continued success. We are an optimistic, focused company that understands the importance of its customers and drives decisions based on meeting their needs. Our research and development pipeline is full, and we will continue to introduce new and innovative products and programs. The cardiorespiratory market presents significant opportunities, and we intend to capitalize on those with the greatest potential to serve our customers. Respironics is the number one company in respiratory, and we are intent on achieving continued leadership in our markets.

Next year our goal is to recognize another milestone by exceeding \$600 million in revenues. I say that with confidence, as I look forward to another strong performance in the upcoming fiscal year.

Sincerely,



**James W. Liken**

*President and Chief Executive Officer*

**Corporate Services** Respironics' Corporate Services facility houses those departments assigned with the task of helping the company's divisions to grow and manage their businesses. The building layout creates an upbeat, high-energy environment that encourages the exchange of information and open communication among employees. These are all key elements of the company's culture.



# corporate services

## Financial Highlights

(amounts in thousands except per share data)

Year Ended June 30	2002	2001	2000	1999	1998
Net Sales	\$ 494,919	\$ 422,438	\$ 368,184	\$ 357,571	\$ 351,576
Net Income (Loss)	38,417 <sup>1</sup>	33,571	5,752 <sup>2</sup>	23,061 <sup>3</sup>	(1,825) <sup>4</sup>
Diluted Earnings (Loss) per Share	1.20 <sup>1</sup>	1.09	0.19 <sup>2</sup>	0.72 <sup>3</sup>	(0.06) <sup>4</sup>
Diluted Shares Outstanding	32,008	30,886	30,004	31,956	32,098
Working Capital	198,966	171,985	155,095	155,336	137,550
Long-Term Obligations	59,502	80,055	108,095	99,374	69,316
Total Assets	547,450	367,295	352,577	343,585	318,320

<sup>1</sup> Includes the impact of purchase accounting adjustment, integration and restructuring charges, and impairment charge. These costs reduced net income by \$3,853,000 (\$0.12 per share) in fiscal year 2002.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> 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.

# 2002 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 2002 were \$494,919,000, representing a 17% increase in sales over the \$422,438,000 recorded in fiscal year 2001. Fiscal year 2001 net sales represented a 15% increase in net sales over the \$368,184,000 recorded in fiscal year 2000. 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 accessories, helped to drive the increase in sales for both 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 Vision™ and Esprit® ventilators, also contributed to the increase in sales in the 2002 fiscal year. During fiscal year 2001, sales of the Company's hospital products also increased compared to fiscal year 2000, including unit and dollar increases for the Company's Esprit® ventilator.

Fiscal year 2002 sales included approximately \$12.7 million of net sales for Novametrix Medical Systems Inc. ("Novametrix"), a leading cardiorespiratory monitoring company acquired by the Company during the fourth quarter of fiscal year 2002. Included in the sales from Novametrix were approximately \$9.5 million of net sales for cardiorespiratory hospital devices and approximately \$3.2 million of net sales for developmental infant care products. Fiscal year 2002 sales also include one month of sales for the distribution company Fuji, RC Co., Ltd ("Fuji"), in which the Company obtained a majority interest in the fourth quarter of fiscal year 2002. The Company's results of operations include the results from both companies since the acquisition dates. For additional information regarding Novametrix and Fuji, see the Financial Condition, Liquidity and Capital Resources section of this Management's Discussion and Analysis and Note O to the Consolidated Financial Statements.

The Company's gross profit was 47% for fiscal years 2002 and 2001, and 44% for fiscal year 2000. Excluding the impact of purchase accounting adjustments and restructuring charges described below, the Company's gross profit was 48% of net sales for fiscal year 2002 compared to 47% of net sales for fiscal years 2001 and 2000. The increase in gross profit percentage for fiscal year 2002 compared to the prior years was primarily due to higher revenue, the impact of higher gross margin from acquired entities and a shift in sales mix.

General and administrative expenses, including the additions to the allowance for doubtful accounts described below, were \$60,719,000 (12% of net sales) for fiscal year 2002, \$50,126,000 (12% of net sales) for fiscal year 2001, and \$48,755,000 (13% of net sales) for fiscal year 2000. The increase in absolute dollars of expense for fiscal year 2002 was due in part to additional general and administrative expenses for one of the Company's two acquisitions, Novametrix. The increases in expenses for all 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 all three fiscal years were lower operating expenses due to the Company's previous restructuring efforts. 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 which 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.

Sales, marketing and commission expenses were \$86,189,000 (17% of net sales) for fiscal year 2002 as compared to \$72,428,000 (17% of net sales) for fiscal year 2001 and \$62,772,000 (17% of net sales) for fiscal year 2000. The increases in absolute dollars of expense for fiscal years 2002 and 2001 were due primarily to increased sales (resulting in higher commission and sales bonus expenses) and increased sales, marketing, product support and service activity levels across the Company's product lines, partially offset by lower operating expenses due to the Company's previous restructuring efforts. Fiscal year 2002 also included additional sales, marketing and commission expenses for Novamatrix and Fuji since their acquisition dates.

Research and development expenses were \$17,317,000 (3% of net sales) for fiscal year 2002, as compared to \$15,281,000 (4% of net sales) for fiscal year 2001 and \$16,815,000 (5% of net sales) for fiscal year 2000. The increase in absolute dollars for the current fiscal year was due to the Company's continuing commitment to research, development and new product introduction. The current fiscal year also included additional research and development expense for Novamatrix. The decrease in absolute dollars of expense for fiscal year 2001 compared to fiscal year 2000 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 2002, 2001 and 2000, with additional new product launches scheduled for fiscal year 2003. In the current fiscal year, new products such as the REMstar® Auto CPAP (Continuous Positive Airway Pressure) device, the BiPAP® Pro bi-level obstructive sleep apnea therapy unit, the H2 Heated Humidifier (the latest addition to the Company's line of heated humidifiers for CPAP and bi-level devices) and two new masks, the ComfortClassic™ Nasal Mask and the ComfortSelect™ Nasal Mask were introduced. Additional development work and clinical trials are being conducted in certain product areas outside the Company's current core products or patient groups, including products designed to treat congestive heart failure.

As part of the acquisition of Novamatrix, during the fourth quarter of fiscal year 2002, the Company incurred a non-recurring purchase accounting adjustment in cost of goods sold of \$1,653,000 related to reversing acquisition date inventory fair market value adjustments as inventory was sold subsequent to the acquisition. Also incurred during the fourth quarter of fiscal year 2002

were non-recurring charges of \$2,288,000 for integration and restructuring costs related to the Novamatrix acquisition, primarily for the elimination and centralization of certain duplicate back office functions. During the fourth quarter of fiscal year 2002, the Company also incurred an impairment charge of \$2,006,000 representing the write-off of intangible assets, inventory and fixed assets related to an oxygen monitoring technology development project that was cancelled based in part on the results of a review of that technology by engineers at Novamatrix. See the Financial Condition, Liquidity and Capital Resources section of this Management's Discussion and Analysis and Note O to the Consolidated Financial Statements for additional information regarding these non-recurring charges.

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 inventory write-offs of discontinued products. 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 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 (excluding the one-time reduction in income tax liability described above) was 40% for fiscal years 2002, 2001 and 2000. The Company's effective tax rate for fiscal year 2000 including the item above was 33%.

As a result of the factors described above, the Company's net income was \$38,417,000 (8% of net sales) or \$1.20 per diluted share for fiscal year 2002 as compared to \$33,571,000 (8% of net sales) or \$1.09 per diluted share for fiscal year 2001 and \$5,752,000 (2% of net sales) or \$0.19 per diluted share for fiscal year 2000.

Excluding the impact of the various non-recurring items described above, the Company's net income was \$42,270,000 (9% of net sales) or \$1.32 per diluted share for fiscal year 2002 as compared to \$33,581,000 (8% of net sales) or \$1.09 per diluted share for fiscal year 2001 and \$25,363,000 (7% of net sales) or \$0.85 per diluted share for fiscal year 2000.

### Financial Condition, Liquidity and Capital Resources

The Company had working capital of \$198,966,000 and \$171,985,000 at June 30, 2002 and 2001, respectively. Net cash provided by operating activities was \$87,186,000 for fiscal year 2002 as compared to \$52,224,000 for fiscal year 2001 and \$23,620,000 for fiscal year 2000. The increase in cash flow from operating activities for all three fiscal years was primarily a result of higher earnings. Fiscal year 2002 cash flow was positively impacted by a decrease in inventory and other current asset levels compared to increases in these balances in prior years, as well as a positive impact of changes in accounts payable and accrued expenses compared to fiscal year 2001.

Net cash used by investing activities was \$44,556,000, \$27,599,000 and \$28,390,000 for fiscal years 2002, 2001 and 2000, respectively. The majority of the cash used by investing activities for all periods represented capital expenditures, including the purchase of leasehold improvements and facilities, production equipment, computer hardware and software, and telecommunications and office equipment. In addition, cash used by investing activities in all three fiscal years included additional purchase price paid for a previously acquired business pursuant to the terms of that acquisition agreement. In fiscal year 2002, cash used for investing activities also included the purchase price paid for

Novamatrix and Fuji, net of cash acquired. See discussion below and Note O to the Consolidated Financial Statements for additional information about these acquisitions. Positive cash flows from operating activities and accumulated cash and cash equivalents provided funding for investment activities in all years.

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 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 initiated by or transferred to the leasing companies. The transfer of certain of these installment receivables meets the criteria of Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," and therefore are not recorded on the Company's financial statements. The total exposure for unpaid installment receivables meeting these criteria and not recorded on the Company's financial statements was approximately \$18,428,000 and \$22,670,000 at June 30, 2002 and 2001, respectively. The transfer of the remainder of these installment receivables (consisting of installment receivables acquired as part of the Novamatrix acquisition) does not meet the criteria of this Standard and therefore must be recorded as collateralized borrowing arrangements. Accordingly, the Company has included \$11,826,000 of receivables sold with recourse as assets in prepaid expenses and other at June 30, 2002 and has recorded offsetting liabilities at that date in accrued expenses and other.

From August 1998 through September 1999, the Company's Board of Directors authorized several stock buybacks which represented authorization to purchase up to 4,000,000 shares of the Company's outstanding common stock. 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 years 2001 or 2002. Including shares repurchased prior to fiscal year 2000, the Company has repurchased a total of 3,800,000

shares under this buyback program. At June 30, 2002, approximately 3,593,000 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 was also used for general corporate purposes, including the stock buyback described above. The revolving credit facility permitted 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 was unsecured and contained 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 was based on a spread over the London Interbank Borrowing Rate ("LIBOR"). During fiscal years 2002 and 2001, the Company repaid \$18,200,000 and \$20,000,000, respectively, on the revolving credit facility. As of June 30, 2002, the interest rate on amounts outstanding under the revolving credit facility was approximately 2.29%.

On August 19, 2002, the Company entered into a new Revolving Credit Agreement with a group of banks under which a total of \$150,000,000 is available with similar terms and financial covenants. The new Revolving Credit Agreement is also unsecured and matures in August 2005. See Notes D and N to the Consolidated Financial Statements for additional information about the credit facilities.

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.

On August 1, 2002, one of the Company's significant homecare distribution customers announced that it filed a voluntary petition to reorganize under Chapter 11 of the U.S. Bankruptcy Code in order to restructure its bank debt. According to the press release issued in connection with the filing, this restructuring was announced as a "100-percent plan," meaning that creditors and vendors are expected to receive all that they are owed, either immediately or over time with interest. The press release also stated that the Company's customer elected to seek court protection in order to facilitate the restructuring of its debt while continuing to maintain normal business operations. The Company believes that based on current available information, the Company's reserve levels as of June 30, 2002, are adequate relative to its receivable with this customer. The Company will continue to monitor the situation.

Note L to the Consolidated Financial Statements summarizes the restructuring charges discussed above taken in regard to the fiscal year 2000 restructuring, including the reserve balances relating to these charges that remain at June 30, 2002. 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.

Note O to the Consolidated Financial Statements summarizes the two acquisitions that the Company made in the fourth quarter of fiscal year 2002. In the acquisition of Novamatrix, the Company issued approximately 2,400,000 shares of its common stock and issued stock options with a total value of approximately \$81 million. In the acquisition of its majority interest in Fuji, the Company paid \$6 million in cash and assumed net indebtedness of \$13 million. Total cash expended for both acquisitions, including transaction costs and net of cash acquired, was \$4.1 million.

The Company has contractual financial obligations and commercial financial commitments consisting primarily of long-term debt, capital lease obligations and non-cancelable operating leases. See Notes D, E and N to the Consolidated Financial Statements for additional information about these obligations and commitments.

The following table summarizes significant contractual obligations and commercial commitments of the Company as of June 30, 2002:

## Contractual Obligations and Commercial Commitments

Contractual Obligations	Payments Due By Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-Term Debt	\$ 73,722,909	\$ 23,206,736	\$ 1,016,581	\$ 49,263,213	\$ 236,379
Capital Lease Obligations	14,625,257	5,639,049	7,111,164	1,875,044	0
Operating Leases	28,712,000	6,163,000	9,465,000	5,847,000	7,237,000
<b>Total Contractual Obligations</b>	<b>\$ 117,060,166</b>	<b>\$ 35,008,785</b>	<b>\$ 17,592,745</b>	<b>\$ 56,985,257</b>	<b>\$ 7,473,379</b>

Other Commercial Commitments	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
<b>Standby Letters of Credit</b>	<b>\$ 1,220,000</b>	<b>\$ 1,220,000</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>

The Company believes that its sources of funding – consisting of projected positive cash flow from operating activities, the availability of additional funds under its revolving credit facility (totaling approximately \$85,880,000 at June 30, 2002 based on the Company's August 19, 2002 Revolving Credit Agreement), and its accumulated cash and cash equivalents – will be sufficient to meet its current and presently anticipated short-term and long-term future needs 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, 2002, the Company had total long-term obligations, including the current portion of those obligations, of \$88,348,000. Of that amount, \$24,848,000 was in fixed rate obligations and \$63,500,000 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, 2002 weighted average interest rate of 2.28% to a weighted average interest rate of 2.51%), annual interest expense would be approximately \$145,000 higher based on the June 30, 2002 outstanding balance of variable rate obligations. The Company has no interest rate swap 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 Euro, the Japanese yen, the Hong Kong dollar and the Chinese yuan. For the year ended June 30, 2002, sales denominated in currencies other than the U.S. dollar totaled \$30,784,000, or approximately 6% of total sales. For the year ended June 30, 2002, pre-tax income denominated in currencies other than the U.S. dollar totaled \$8,742,000, or approximately 12% of total pre-tax income. An adverse change of 10% in exchange rates would have resulted in a decrease in sales of \$3,078,000 and a decrease in pre-tax income of \$874,000 for the year ended June 30, 2002. The Company's subsidiaries that operate in Germany, France, Japan, 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 has applied the provisions of FASB No. 141 to account for business combinations consummated after July 1, 2001, including the acquisitions of Novamatrix and Fuji discussed above and in Note O to the Consolidated Financial Statements.

The Company has applied the new rules under FASB No. 142 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 of approximately \$3,000,000 or \$0.08 per diluted share. The Company has also performed the first of the required impairment tests of goodwill and indefinite lived intangible assets and no impairment has been found to exist as of July 1, 2002.

In August 2001, Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," was issued. This Statement requires recording the fair value of a liability for an asset retirement obligation in the period in which it is incurred, and a corresponding increase in the carrying value of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, it is either settled for its recorded amount or a gain or loss upon settlement is recorded. FASB No. 143 is effective for the Company's fiscal year ending June 30, 2003. The Company believes that the impact of FASB No. 143 on its financial position and results of operations will not be material.

In August 2001, Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," was issued. This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement supercedes FASB No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of Accounting Principles Board ("APB") Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that Opinion). FASB No. 144 is effective for the Company's fiscal year ending June 30, 2003. The Company believes that the impact of FASB No. 144 on its financial position and results of operations will not be material.

Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," was issued to amend FASB No. 13 and requires sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. FASB No. 145 also makes various technical corrections to existing pronouncements that are not substantive in nature. The Company is currently evaluating the impact FASB No. 145 will have on its financial position and results of operations.

Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," addresses financial accounting and reporting for costs associated with exit or disposal activities and requires that a liability for a cost associated with an exit or disposal activity be recognized at fair value when the liability is incurred, rather than at the date of an entity's commitment to an exit plan. The provisions of FASB No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company is currently evaluating the impact FASB No. 146 will have on its financial position and results of operations.

### Critical Accounting Policies

The Company's Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States, which require the Company to make estimates and assumptions that may affect the reported financial condition and results of operations should actual results differ. The Company bases its estimates and assumptions on the best available information and believes them to be reasonable under the circumstances. The Company believes that of its significant accounting policies, the following may involve a higher degree of judgment and complexity.

**Revenue Recognition:** The Company's revenues are recognized when title to product passes to the customer, which generally occurs upon shipment to a customer location and, in the case of rental revenue and long-term service contracts, is recognized ratably over the period the product is rented or services are performed. From time to time, the Company offers favorable sales arrangements to certain of its largest customers in exchange for volume purchase commitments. These customers make such large purchases for a variety of reasons, including the desire to reduce shipping costs and to correspond to their own budgeting and purchasing cycles. The Securities and Exchange Commission's Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition," provides guidance on the application of generally accepted accounting principles to selected revenue recognition issues. The Company has concluded that its revenue recognition policy is appropriate and in accordance with generally accepted accounting principles and SAB No. 101.

### Allowance for Uncollectible Accounts Receivable:

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. Substantially all of the Company's receivables are due from health care product providers, distributors and hospitals. The Company's customers are located throughout the United States and around the world. A significant portion of products sold to providers, distributors and hospitals, both foreign and domestic, is ultimately funded through government reimbursement programs or through private insurance programs. As a consequence, changes in these programs can have an adverse impact on distributor and hospital liquidity and profitability. In addition, because a concentration of market share exists in the homecare product industry in the United States among national and large regional providers, the Company experiences a comparable concentration of credit risk with these customers. The estimated allowance for uncollectible amounts is based primarily on the Company's evaluation of the payment pattern and financial condition of its customers. In addition, the Company is contingently liable, within certain limits, in the event of a customer default on unpaid installment receivables initiated by or transferred to several independent leasing companies in connection with customer leasing programs. The Company monitors the collection status of these installment receivables and provides amounts necessary for estimated losses in the allowance for doubtful accounts.

**Inventories and Related Allowance for Obsolete and Excess Inventory:** Inventories are valued at the lower of cost or market value and have been reduced by an allowance for excess and obsolete inventories. The estimated allowance is based on the Company's review of inventories on hand compared to estimated future usage and sales. If it is determined that inventory on hand is in excess of estimated future usage and sales because of product obsolescence, changes in customer demand, or other reasons, additional inventory reserves may need to be provided. The establishment of these additional reserves may have an adverse impact on earnings, depending on the extent and amount of inventory affected.

**Intangible and Product Technology Related Assets:** Intangible and product technology related assets are amortized to expense over their useful lives. These useful lives are based on the Company's estimates of the period that the assets will generate revenue. Intangible and product technology related assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such asset may not be recoverable. If such carrying amounts are determined to be unrecoverable because of changes in technology, extended delays in obtaining regulatory approval, competition, or other reasons, the carrying amounts may need to be adjusted. These adjustments may have an adverse impact on earnings, depending on the significance of the carrying amounts and the extent of the required adjustments.

**Contingencies:** As a normal part of its business operations, the Company incurs liabilities that may be difficult to quantify precisely, such as future warranty obligations, potential liabilities relating to legal or regulatory matters, and tax exposures. The Company follows the requirements of Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies," which dictate when a charge to income should be taken to accrue for a loss contingency. These requirements necessitate the application of judgment regarding the likelihood and amount of the liability.

### **Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Reform Act of 1995.**

The statements contained in this Annual Report, including those contained in the President's Letter and "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 the expected results included in the forward-looking 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 the Company's marketing, sales and promotion programs, the development of new products and markets, interest rate fluctuations, intellectual property and related litigation, other litigation, successful integration of acquisitions, FDA and other government regulation, anticipated levels of earnings and revenues, and third party reimbursement.

# Consolidated Balance Sheets

At June 30	2002	2001
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 62,334,684	\$ 27,320,910
Trade accounts receivable, less allowance for doubtful accounts of \$18,458,000 and \$16,457,000	121,281,073	98,078,344
Inventories	86,632,027	73,417,896
Prepaid expenses and other	23,875,193	10,937,110
Deferred income tax benefits	15,728,389	14,201,951
<b>Total Current Assets</b>	<b>309,851,366</b>	<b>223,956,211</b>
<b>Property, Plant and Equipment</b>		
Land	2,867,555	2,506,052
Building	16,777,382	8,509,596
Machinery and equipment	133,872,197	84,559,172
Furniture, office and computer equipment	67,768,498	56,011,341
Leasehold improvements	6,413,872	5,286,891
	227,699,504	156,873,052
Less allowances for depreciation and amortization	127,764,645	89,259,800
	<b>99,934,859</b>	<b>67,613,252</b>
<b>Other Assets</b>		
Goodwill	<b>33,802,545</b>	<b>15,868,930</b>
	<b>103,860,749</b>	<b>59,856,714</b>
	<b>\$ 547,449,519</b>	<b>\$ 367,295,107</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 39,081,748	\$ 28,964,129
Accrued expenses and other	42,958,007	19,009,135
Current portion of long-term obligations	28,845,785	3,998,317
<b>Total Current Liabilities</b>	<b>110,885,540</b>	<b>51,971,581</b>
Long-term Obligations	<b>59,502,381</b>	<b>80,055,378</b>
Minority Interest and Other	<b>9,341,531</b>	<b>0</b>
<b>Shareholders' Equity</b>		
Common Stock, \$.01 par value; authorized 100,000,000 shares; issued and outstanding 36,885,795 shares at June 30, 2002 and 34,013,785 shares at June 30, 2001	368,858	340,138
Additional capital	213,837,023	121,720,289
Accumulated other comprehensive loss	(2,718,213)	(4,237,433)
Retained earnings	198,450,389	160,033,521
Treasury stock	(42,217,990)	(42,588,367)
<b>Total Shareholders' Equity</b>	<b>367,720,067</b>	<b>235,268,148</b>
	<b>\$ 547,449,519</b>	<b>\$ 367,295,107</b>

See notes to consolidated financial statements.

# Consolidated Statements of Operations

Year ended June 30	2002	2001	2000
Net sales	\$ 494,918,654	\$ 422,437,862	\$ 368,184,110
Cost of goods sold	260,795,012	223,362,120	196,519,907
Cost of goods sold—restructuring charges	0	724,990	8,709,895
	<b>234,123,642</b>	<b>198,350,752</b>	<b>162,954,308</b>
General and administrative expenses	60,718,793	50,125,593	48,754,853
Sales, marketing and commission expenses	86,188,885	72,428,211	62,771,648
Research and development expenses	17,317,462	15,281,233	16,814,561
Integration and restructuring charges (credit)	2,288,398	(1,908,581)	20,486,009
Impairment charge	2,005,722	0	0
Interest expense	3,011,018	7,545,535	6,945,585
Other income	(1,442,853)	(1,029,283)	(1,394,231)
	<b>170,087,425</b>	<b>142,442,708</b>	<b>154,378,425</b>
<b>Income Before Income Taxes</b>	<b>64,036,217</b>	<b>55,908,044</b>	<b>8,575,883</b>
Income taxes	25,619,349	22,336,760	2,823,599
<b>Net Income</b>	<b>\$ 38,416,868</b>	<b>\$ 33,571,284</b>	<b>\$ 5,752,284</b>
Basic earnings per share	\$ 1.24	\$ 1.12	\$ 0.19
Basic shares outstanding	31,079,282	29,962,366	29,660,366
Diluted earnings per share	\$ 1.20	\$ 1.09	\$ 0.19
Diluted shares outstanding	32,008,359	30,886,043	30,003,755

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	
<b>Balance at June 30, 1999</b>	<b>32,999,332</b>	<b>\$ 329,993</b>	<b>\$ 108,863,191</b>	<b>\$ (1,231,013)</b>	<b>\$ 120,709,953</b>	<b>2,689,683</b>	<b>\$ (34,150,678)</b>	<b>\$ 194,521,446</b>
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
<b>Balance at June 30, 2000</b>	<b>33,182,565</b>	<b>331,826</b>	<b>110,795,650</b>	<b>(3,131,703)</b>	<b>126,462,237</b>	<b>3,733,498</b>	<b>(43,352,117)</b>	<b>191,105,893</b>
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
<b>Balance at June 30, 2001</b>	<b>34,013,785</b>	<b>340,138</b>	<b>121,720,289</b>	<b>(4,237,433)</b>	<b>160,033,521</b>	<b>3,639,169</b>	<b>(42,588,367)</b>	<b>235,268,148</b>
Shares sold pursuant to stock option and purchase plans	472,617	4,726	8,377,899	0	0	0	0	8,382,625
Net acquisition and use of treasury stock	0	0	0	0	0	(46,444)	370,377	370,377
Income tax benefit from exercise of stock options	0	0	2,766,453	0	0	0	0	2,766,453
Stock issued for business acquired	2,399,393	23,994	80,972,382	0	0	0	0	80,996,376
Comprehensive income:								
Net income for the year ended June 30, 2002	0	0	0	0	38,416,868	0	0	38,416,868
Foreign currency translation adjustments	0	0	0	1,519,220	0	0	0	1,519,220
Total comprehensive income	0	0	0	1,519,220	38,416,868	0	0	39,936,088
<b>Balance at June 30, 2002</b>	<b>36,885,795</b>	<b>\$ 368,858</b>	<b>\$ 213,837,023</b>	<b>\$ (2,718,213)</b>	<b>\$ 198,450,389</b>	<b>3,592,725</b>	<b>\$ (42,217,990)</b>	<b>\$ 367,720,067</b>

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flow

Year Ended June 30	2002	2001	2000
<b>Operating Activities</b>			
Net income	\$ 38,416,868	\$ 33,571,284	\$ 5,752,284
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	28,578,753	23,166,376	20,850,886
Amortization	5,653,328	5,171,364	5,855,565
Tax benefit from exercise of stock options	2,766,453	3,147,495	414,354
Provision for asset write-offs	2,005,722	0	11,694,013
Gain on sale of property, plant and equipment	0	(2,302,000)	0
Provision for bad debts	3,275,000	2,000,000	4,500,000
Provision (benefit) for deferred income taxes	3,251,495	2,949,095	(4,415,676)
Changes in operating assets and liabilities:			
Increase in accounts receivable	(7,905,452)	(3,344,649)	(1,980,488)
Decrease (increase) in inventories and other current assets	9,052,239	(5,742,168)	(16,049,078)
Increase in other assets	(3,637,616)	(1,944,496)	(5,538,934)
Increase (decrease) in accounts payable and accrued expenses	5,728,845	(4,448,085)	2,537,308
<b>Net Cash Provided By Operating Activities</b>	<b>87,185,635</b>	<b>52,224,216</b>	<b>23,620,234</b>
<b>Investing Activities</b>			
Purchase of property, plant and equipment	(39,829,553)	(28,236,464)	(27,304,289)
Proceeds from sale of property, plant and equipment	0	1,425,000	0
Acquisition of businesses, net of cash acquired	(4,726,200)	(787,580)	(1,085,407)
<b>Net Cash Used By Investing Activities</b>	<b>(44,555,753)</b>	<b>(27,599,044)</b>	<b>(28,389,696)</b>
<b>Financing Activities</b>			
Proceeds from long-term obligations	4,531,085	0	11,219,280
Reduction in long-term obligations	(21,198,203)	(25,447,952)	(2,059,199)
Issuance of common stock	8,382,625	8,549,206	1,519,938
Use (acquisition) of treasury stock, net	370,377	0	(9,201,439)
Increase (decrease) in minority interest and other	298,008	0	(766,035)
<b>Net Cash (Used) Provided By Financing Activities</b>	<b>(7,616,108)</b>	<b>(16,898,746)</b>	<b>712,545</b>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>35,013,774</b>	<b>7,726,426</b>	<b>(4,056,917)</b>
Cash and cash equivalents at beginning of period	27,320,910	19,594,484	23,651,401
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 62,334,684</b>	<b>\$ 27,320,910</b>	<b>\$ 19,594,484</b>

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 Respiroics, Inc. (the "Company") and its wholly and majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Minority interests in majority owned subsidiaries have been recorded.

**Revenue Recognition:** Revenue is recognized from sales when title to product passes to the customer, which generally occurs upon shipment to a customer location. Rental and service revenues are recognized when billed on a monthly basis consistent with the rental and service periods.

**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. Costs incurred to purchase or develop software for internal use, including upgrades and enhancements, are capitalized during the software application development stage in accordance with Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Depreciation is computed using the straight-line method based upon the estimated useful lives of the respective assets, which are 30 years for buildings and generally range from two to five years for other property, plant and equipment. 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:** 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 the fair market value of the Company's common stock 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 and warrants which are determined using the treasury stock method.

**Cash and Cash Equivalents:** The Company considers all highly liquid investments with a maturity of 30 days or less when purchased to be cash and cash equivalents.

**Capitalized Software Production Costs:** Software development costs have been capitalized when technological feasibility was established 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 \$4,515,000 and \$1,940,000 at June 30, 2002 and 2001, 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, 2002, 2001 and 2000 were \$965,000, \$805,000 and \$1,224,000, 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 \$23,099,000 and \$19,289,000 at June 30, 2002 and 2001, respectively. Through fiscal year 2002, the Company has evaluated 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.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141, "Business Combinations," and Statement 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 has applied the provisions of FASB No. 141 to account for business combinations consummated after July 1, 2001, including the acquisitions of Novamatrix Medical Systems Inc. ("Novamatrix") and Fuji, RC Co., Ltd. ("Fuji") discussed in Note O to these Consolidated Financial Statements.

Effective July 1, 2002, the Company has adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," under which goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests. The Company has performed the first of its required impairment tests with the adoption of FASB No. 142 and has determined that no impairment exists as of July 1, 2002. Application of the nonamortization provisions of the Statement is expected to result in an increase in annual net income of approximately \$3,000,000 or \$0.08 per diluted share.

**Accrued Expenses and Other:** Accrued expenses and other includes accrued compensation of \$11,060,000 and \$6,887,000 at June 30, 2002 and 2001, 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 August 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement supersedes FASB No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived

Assets to be Disposed Of,” and the accounting and reporting provisions of Accounting Principles Board (“APB”) Opinion No. 30, “Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,” for the disposal of a segment of a business (as previously defined in that Opinion). FASB No. 144 is effective for the Company’s fiscal year ending June 30, 2003. The Company believes that the impact of FASB No. 144 on its financial position and results of operations will not be material.

Statement of Financial Accounting Standards No. 146, “Accounting for Costs Associated with Exit or Disposal Activities,” addresses financial accounting and reporting for costs associated with exit or disposal activities and requires that a liability for a cost associated with an exit or disposal activity be recognized at fair value when the liability is incurred, rather than at the date of an entity’s commitment to an exit plan. The provisions of FASB No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company is currently evaluating the impact FASB No. 146 will have on its financial position and results of operations.

**Use of Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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, 2001 and 2000 financial statements were reclassified to conform with the presentation in the current period.

## Note B

### Cash Equivalents

Cash equivalents consist primarily of money market accounts and certificates of deposit issued by large commercial banks located in the United States and Hong Kong.

## Note C

### Inventories

Inventories consisted of the following:

June 30	2002	2001
Raw materials	\$ 15,236,332	\$ 20,738,160
Work-in-process	8,135,768	5,960,618
Finished goods	63,259,927	46,719,118
	<b>\$ 86,632,027</b>	<b>\$ 73,417,896</b>

## Note D

### Long-Term Obligations

Long-term obligations consisted of the following:

June 30	2002	2001
Commercial Bank Credit Agreement, payable in one lump sum in August 2005 including interest at a floating rate (2.29% at June 30, 2002); see Note N	\$ 62,900,000	\$ 81,100,000
Bank Debt with varying maturities (final maturity in September 2005) including interest rates ranging from 0.833% to 2.25%	8,675,928	0
Capital Lease Obligations, payable in monthly installments with varying completion dates through April 2007 including interest rates ranging from 2.9% to 3.0%	14,625,257	0
Other	2,146,981	2,953,695
	<b>88,348,166</b>	<b>84,053,695</b>
Less current portion	<b>28,845,785</b>	<b>3,998,317</b>
	<b>\$ 59,502,381</b>	<b>\$ 80,055,378</b>

Other long-term obligations in the above table includes an Economic Development Revenue Bond, Industrial Development Authority Loans, and a Redevelopment Authority Loan that are secured by mortgages on the Company's manufacturing facility in Murrysville, Pennsylvania. Proceeds from the bonds and the loans were used to finance the construction and expansion of some of the Company's facilities. The Capital Lease Obligations are primarily for ventilators and other equipment rented to outside customers by the Company's Fuji subsidiary. The Commercial Bank Credit Agreement, under which a total of \$125,000,000 was available, was unsecured. The Company was 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, 2002, the Company was in compliance with these covenants. The Commercial Bank Revolving Credit Agreement included a commitment fee, currently equal to 0.150%, 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

2003	\$ 28,845,785
2004	4,910,823
2005	3,216,922
2006	50,497,208
2007	641,049
Thereafter	236,379
<b>Total</b>	<b>\$ 88,348,166</b>

Interest paid was \$2,983,000, \$7,870,000 and \$6,590,000, for the years ended June 30, 2002, 2001 and 2000, respectively.

## Note E

### Operating Leases

The Company leases 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, 2002 are as follows:

Year Ending June 30	Amount
2003	\$ 6,163,000
2004	5,265,000
2005	4,200,000
2006	3,183,000
2007	2,664,000
Thereafter	7,237,000
<b>Total</b>	<b>\$ 28,712,000</b>

Total rent expense for the years ended June 30, 2002, 2001 and 2000, was \$5,255,000, \$4,605,000 and \$3,841,000, 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 Cash Equivalents:** 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, 2002 and 2001.

## Note G

### Income Taxes

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

Year Ended June 30	2002	2001	2000
United States	\$ 55,870,449	\$ 56,058,248	\$ 10,020,446
Foreign	8,165,768	(150,204)	(1,444,563)
<b>Total</b>	<b>\$ 64,036,217</b>	<b>\$ 55,908,044</b>	<b>\$ 8,575,883</b>

Income taxes (benefit) consisted of:

Year Ended June 30	2002	2001	2000
Current:			
Federal	\$ 16,873,746	\$ 17,157,270	\$ 5,975,847
Foreign	1,617,787	(595,422)	184,800
State	3,876,321	2,825,817	1,078,628
Tax benefit from exercise of stock options	(2,766,453)	(3,147,495)	(414,354)
	<b>19,601,401</b>	<b>16,240,170</b>	<b>6,824,921</b>
Deferred:			
Federal	2,921,678	2,579,968	(3,775,687)
State	329,817	369,127	(639,989)
	<b>3,251,495</b>	<b>2,949,095</b>	<b>(4,415,676)</b>
Credit to additional paid-in-capital for tax benefit from stock option exercises	<b>2,766,453</b>	<b>3,147,495</b>	<b>414,354</b>
<b>Total Income Taxes</b>	<b>\$ 25,619,349</b>	<b>\$ 22,336,760</b>	<b>\$ 2,823,599</b>

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	2002	2001	2000
Statutory federal income tax rate	35%	35%	35%
Increases (decreases):			
State taxes, net of federal benefit	4	4	3
Foreign taxes	(2)	0	7
Tax credits	(1)	(1)	(8)
Tax liability adjustment	0	0	(19)
Non-deductible expenses (primarily goodwill amortization)	3	1	14
Other items, net	1	1	1
<b>Effective Income Tax Rate</b>	<b>40%</b>	<b>40%</b>	<b>33%</b>

Deferred income tax assets consisted of the following:

June 30	2002	2001
Allowance for bad debts	\$ 6,796,484	\$ 5,849,756
Depreciation	(1,071,411)	(987,067)
Inventory reserves	3,497,260	4,663,616
Restructuring reserves	1,096,489	840,349
Net operating loss carryforward, limited by Section 382	1,724,127	0
Business credits carryforward, limited by Section 383	711,870	0
Other	2,973,570	3,835,297
<b>Total</b>	<b>\$ 15,728,389</b>	<b>\$ 14,201,951</b>

Undistributed earnings of the foreign subsidiaries on which no U.S. income tax has been provided amounted to \$12,932,775 at June 30, 2002.

Income taxes paid were \$19,170,284, \$19,533,062 and \$3,286,051, for the years ended June 30, 2002, 2001 and 2000, respectively.

On April 12, 2002, the Company acquired Novamatrix Medical Systems Inc. which had a federal and state net operating loss for the period ending April 12, 2002 of approximately \$5,800,000. Such net operating loss on a carryforward basis expires in 2022. Additionally, Novamatrix had unused research tax credits of approximately \$475,000 which expire in varying amounts through 2013 and alternative minimum tax credits of \$237,000 which do not have expiration dates. As a result of the ownership change, the utilization of the net operating loss and the credit carryforwards is limited each year by Internal Revenue Code Sections 382 and 383, respectively. The Company expects to fully utilize the net operating loss and credit carryforwards.

The change in deferred income tax assets between June 30, 2001 and June 30, 2002 includes \$4,777,933 resulting from acquisitions.

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"), the 1992 Stock Incentive Plan (the "1992 Plan") and the 2000 Stock Incentive Plan (the "2000 Plan"), which provide options to eligible employees, and in the case of the 2000 Plan, to eligible consultants and non-employee directors (as described below in the case of 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. Under the 1984 and 1992 Plans, 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 2000 Plan, options become exercisable at such times or upon the occurrence of such events as determined by the Committee administering the 2000 Plan. Under the 1992 and 2000 Plans, options may include cash payment rights and restricted shares of the Company's common stock may also be awarded. The 1984 Plan, which terminated as to new grants in 1993, had 3,400,000 shares approved for issuance. The 1992 Plan has a total of 3,000,000 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 shares that were approved by the Company's shareholders in November 1998. The 2000 Plan has a total of 1,400,000 shares approved for issuance.

The Company also has in place the 1991 Non-Employee Directors' Stock Option Plan (the "Directors' Plan"), the shares available under which were exhausted in 2001. The 2000 Plan replaced the Directors' Plan for current grants. Options previously granted under the Directors' Plan, and currently granted under the 2000 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 2000 Plan have been granted. Such options are granted at fair market value on the date of grant. For options granted to non-employee directors, 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 and the 2000 Plan expire ten years after the date of grant. The Directors' Plan had 300,000 options approved for issuance, which were exhausted in 2001.

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.

Novamatrix had in place, prior to its merger with the Company, five stock option plans: the 1990 Stock Option Plan; the 1994 Stock Option Plan; the 1997 Long Term Incentive Plan; the 1999 Incentive Plan; and the 2000 Long Term Incentive Plan. Novamatrix also had in place certain stock option agreements, separately from its plans, with its President and its Chief Operating Officer. At the date of the merger, the outstanding Novamatrix options were converted into a total of 416,125 options to purchase Respiroics common stock. Under the terms of the Novamatrix plans and agreements, all such options become immediately exercisable in connection with 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	2002	2001	2000
<b>Option Shares</b>			
Outstanding at beginning of period	2,173,989	2,584,479	1,950,861
Granted:			
Price range (\$10.33–\$33.75)	1,180,959		
Price range (\$16.13–\$29.93)		604,000	
Price range (\$ 7.94–\$14.44)			1,092,247
Exercised:			
Price range (\$ 6.22–\$26.19)	(486,225)		
Price range (\$ 4.50–\$24.63)		(833,840)	
Price range (\$ 2.81–\$16.25)			(183,233)
Canceled	(104,695)	(180,650)	(275,396)
<b>Outstanding at end of period (Weighted average price \$19.69)</b>	<b>2,764,028</b>	<b>2,173,989</b>	<b>2,584,479</b>
<b>Exercisable at end of period</b>	<b>1,104,509</b>	<b>647,692</b>	<b>1,100,821</b>
<b>Shares available for future grant</b>	<b>1,648,722</b>	<b>2,308,861</b>	<b>1,332,211</b>

The range of grant and exercise prices above includes the post-conversion option prices for options granted by Novamatrix prior to its merger with the Company.

The per share weighted-average fair value of stock options granted during 2002, 2001 and 2000, was \$17.35, \$10.39 and \$4.81, respectively, on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2002	2001	2000
Expected volatility	53.0%	57.1%	56.8%
Expected dividend yield	none	none	none
Risk-free interest rate	4.1%	5.0%	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:

	2002	2001	2000
Net earnings:			
As reported	\$ 38,416,868	\$ 33,571,284	\$ 5,752,284
Pro forma	33,311,365	30,202,284	3,365,284
Diluted earnings per share:			
As reported	1.20	1.09	0.19
Pro forma	1.04	0.98	0.11

Novamatrix also had in place, prior to its merger with the Company, warrants outstanding to purchase shares of its common stock. At the date of the merger, the outstanding Novamatrix warrants were converted into a total of 91,013 warrants to purchase Respironics common stock with exercise prices ranging from \$10.33 per share to \$29.52 per share. The warrants expire at various dates through March 2005 and are all currently exercisable.

In March 1997, the Company adopted the 1997 Employee Stock Purchase Plan (the "1997 Plan") under which employees could purchase common stock of the Company through payroll deductions during each Plan year beginning in 1997 through 2001. The 1997 Plan terminated as to future grants after 2001. In August 2001, the Company adopted the 2002 Employee Stock Purchase Plan (the "2002 Plan") under which employees can purchase common stock of the Company through payroll deductions during each Plan year beginning in 2002 through 2006. The purchase price under each 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 currently under the 2002 Plan, and historically could purchase under the 1997 Plan, is equal to 20% of annual compensation. There are no charges or credits to income in connection with the Plans. 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	2002	2001	2000
<b>Net Sales</b>			
Homecare	\$ 410,796,354	\$ 357,223,198	\$ 307,644,676
Hospital	60,813,140	43,235,211	38,595,151
Asthma and Allergy	23,309,160	21,979,453	21,944,283
<b>Net Sales</b>	<b>\$ 494,918,654</b>	<b>\$ 422,437,862</b>	<b>\$ 368,184,110</b>

Financial information about the Company by geographic area is presented below. The term "Foreign" is used to describe the Company's operations in Hong Kong, Germany, China, Japan and France.

Year Ended June 30	2002	2001	2000
<b>Net Sales</b>			
United States:			
Unaffiliated customers	\$ 458,470,999	\$ 400,361,214	\$ 342,454,391
Interarea transfers	21,176,011	17,644,344	81,490,976
	<b>479,647,010</b>	<b>418,005,558</b>	<b>423,945,367</b>
Foreign:			
Unaffiliated customers	36,447,655	22,076,648	25,729,719
Interarea transfers	15,223,575	9,882,463	8,071,010
	<b>51,671,230</b>	<b>31,959,111</b>	<b>33,800,729</b>
Elimination – Transfers	<b>36,399,586</b>	<b>27,526,807</b>	<b>89,561,986</b>
<b>Net Sales</b>	<b>\$ 494,918,654</b>	<b>\$ 422,437,862</b>	<b>\$ 368,184,110</b>
<b>Operating Profit</b>			
United States	\$ 73,762,027	\$ 72,736,494	\$ 53,214,768
Foreign	9,555,227	1,124,102	2,435,236
<b>Operating Profit</b>	<b>83,317,254</b>	<b>73,860,596</b>	<b>55,650,004</b>
Corporate expense, including non-recurring items	<b>16,270,019</b>	<b>10,407,017</b>	<b>40,128,536</b>
Interest expense	<b>3,011,018</b>	<b>7,545,535</b>	<b>6,945,585</b>
<b>Income before Income Taxes</b>	<b>\$ 64,036,217</b>	<b>\$ 55,908,044</b>	<b>\$ 8,575,883</b>

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	2002	2001
<b>Identifiable Assets</b>		
United States	\$401,844,394	\$303,913,079
Foreign	67,542,052	21,859,167
	<b>469,386,446</b>	<b>325,772,246</b>
Corporate assets (cash and cash equivalents and deferred income taxes)	78,063,073	41,522,861
<b>Total Assets</b>	<b>\$ 547,449,519</b>	<b>\$ 367,295,107</b>
<b>Total Assets</b>		
United States	\$463,359,111	\$339,291,183
Foreign	84,090,408	28,003,924
<b>Total Assets</b>	<b>\$ 547,449,519</b>	<b>\$ 367,295,107</b>
<b>Total Liabilities</b>		
United States	\$137,931,564	\$130,484,540
Foreign	41,797,888	1,542,419
<b>Total Liabilities</b>	<b>\$ 179,729,452</b>	<b>\$ 132,026,959</b>

The Company develops, manufactures and markets medical devices primarily 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 providers and 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, 2002, one customer accounted for 10% of net sales. During the fiscal year ended June 30, 2001, that same customer accounted for 11% of net sales. No single customer accounted for 10% or more of net sales for the fiscal year ended June 30, 2000.

## 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. Effective July 1, 2002, this contribution rate increases to up to 30% (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 \$1,774,000, \$1,307,000 and \$1,528,000, for the years ended June 30, 2002, 2001 and 2000, 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 initiated by or transferred to the leasing companies. The transfer of certain of these installment receivables meets the criteria of Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," and therefore are not recorded on the Company's financial statements. The total exposure for unpaid installment receivables meeting these criteria and not recorded on the Company's financial statements was approximately \$18,428,000 and \$22,670,000 at June 30, 2002 and 2001, respectively. The transfer of the remainder of these installment receivables (consisting of installment receivables acquired as part of the Novamatrix acquisition) does not meet the criteria of this Standard and therefore must be recorded as collateralized borrowing arrangements. Accordingly, the Company has included \$11,826,000 of receivables sold with recourse as assets in prepaid expenses and other at June 30, 2002 and has recorded offsetting liabilities at that date in accrued expenses and other.

## Note L

### Restructuring

In July 1999, the Company announced a major restructuring of its U.S. operations that included facility closings and downsizings, a management realignment and a workforce reduction associated with those changes. The workforce reduction involved approximately 200 employees in areas of executive management, manufacturing, engineering, sales and marketing, administration and service. The following table summarizes these restructuring charges and corresponding expenditures.

## Reconciliation of Restructuring Reserves

	Employee Severance Costs	Asset Write-Downs	Lease Buyouts & Other Direct Expenses	Total Restructuring
<b>Balance at July 1, 1999</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
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)
<b>Balance at June 30, 2000</b>	<b>3,200,000</b>	<b>7,200,000</b>	<b>1,100,000</b>	<b>11,500,000</b>
Restructuring charges (net) <sup>1</sup>	(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)
<b>Balance at June 30, 2001</b>	<b>1,500,000</b>	<b>5,700,000</b>	<b>200,000</b>	<b>7,400,000</b>
Restructuring charges (net)	0	0	0	0
Cash expenditures	(1,400,000)	0	(100,000)	(1,500,000)
Noncash expenditures	0	(3,400,000)	0	(3,400,000)
<b>Balance at June 30, 2002</b>	<b>\$ 100,000</b>	<b>\$ 2,300,000</b>	<b>\$ 100,000</b>	<b>\$ 2,500,000</b>

<sup>1</sup> During the year ended June 30, 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). The non-cash expenditures presented as reductions of the asset write-down restructuring charge represent disposals of fully written-down assets, including rationalized inventories and impairments to long-lived assets held for disposal consisting of machinery, equipment and computer software.

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, 2002 are expected to be paid out during fiscal year 2003.

## Note M

### Stock Repurchase

From August 1998 through September 1999, the Company's Board of Directors authorized several stock buybacks which represented authorization to purchase up to 4,000,000 shares of the Company's outstanding common stock. 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 years 2001 or 2002. Including shares repurchased prior to fiscal year 2000, 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

### Subsequent Event

On August 19, 2002, the Company entered into a new Revolving Credit Agreement under which a total of \$150,000,000 is available, with similar terms and financial covenants to the Commercial Bank Credit Agreement (see Note D) and which expires in August 2005. The new Revolving Credit Agreement is also unsecured.

## Note O

### Acquisitions

On April 12, 2002, the Company completed its previously announced acquisition of 100% of the outstanding common stock of Novamatrix Medical Systems Inc. ("Novamatrix"), a leading cardiorespiratory monitoring company that develops, manufactures and markets proprietary state-of-the-art noninvasive monitors, sensors and disposable accessories. The acquisition of Novamatrix was consummated pursuant to an Agreement and Plan of Merger dated as of December 17, 2001, pursuant to which Respiration Holdings, Inc., a wholly owned subsidiary of the Company, was merged with and into Novamatrix (the "Merger"). The Company made this acquisition for various reasons, including: (a) the Novamatrix monitoring products complement the Company's therapeutic products used in the hospital environment, (b) the Novamatrix developmental care products complement the Company's infant management products and programs, (c) the Novamatrix cardiac output monitoring technologies have the potential to support the Company's initiatives in the congestive heart failure area, and with the acquisition, (d) the Company's "critical mass" of products, revenues, profits, and assets in these markets increased, and (e) the Company expects to reduce costs by integrating Novamatrix's business functions and processes. The results of operations of Novamatrix are included in the Company's consolidated income statement beginning on the acquisition date, April 12, 2002.

Upon consummation of the Merger, approximately 2,400,000 shares of the Company's common stock were issued to the former stockholders of Novamatrix, reflecting an exchange ratio of .2541 shares of the Company's common stock for each share of Novamatrix common stock. The exchange ratio was determined based on the weighted average selling price of \$31.48 for the Company's common stock for the 20 day trading period from March 11 through April 8, 2002. Novamatrix stockholders received the Company's stock in an amount equal to \$8.00 per Novamatrix share based upon the weighted average selling price. In addition, approximately 509,000 shares of the Company's common stock were reserved for issuance upon exercise of options and warrants issued in exchange for Novamatrix options and warrants that were not exercised prior to the consummation of the Merger. As of the close of trading on April 12, 2002, Novamatrix common stock ceased to be traded on the Nasdaq National Market.

The total value of the Company's shares issued and reserved for issuance in the transaction was approximately \$81.0 million based on the average fair market value of the Company's common stock during the three-day periods both before and after the first day the number of shares issued became fixed, plus the fair market value of the Company's common stock reserved for issuance. In addition, the Company incurred approximately \$3.4 million in transaction costs (consisting primarily of investment banking and other professional fees and severance costs for certain Novamatrix employees), bringing the total acquisition cost to approximately \$84.4 million.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition. The allocation of the purchase price may be subject to further refinement, primarily due to final determination of the recoverability and disposition of assets and liabilities based on events that existed at the acquisition date.

At April 12	2002
Current assets, primarily consisting of accounts receivable and inventories	\$ 24,500,000
Property, plant and equipment	2,900,000
Intangible assets	17,700,000
Other noncurrent assets	1,400,000
Goodwill	47,500,000
<b>Total assets acquired</b>	<b>\$ 94,000,000</b>
Current liabilities, primarily consisting of accounts payable, accrued expenses and current portion of debt	9,600,000
<b>Net assets acquired</b>	<b>\$ 84,400,000</b>

The amounts assigned to major classes of intangible assets are shown below:

Technology related assets, primarily patents	\$ 17,300,000
Non-compete agreements	400,000
<b>Total intangible assets</b>	<b>\$ 17,700,000</b>

The weighted average amortization period is approximately 15 years for the technology related assets, approximately three years for the non-compete agreements, and approximately 14 years in total.

Approximately \$3.1 million of goodwill is expected to be deductible for tax purposes.

Restructuring and integration costs related to the Novamatrix acquisition were incurred during fiscal year 2002. Severance costs of \$1,647,000 for the separation of approximately 50 employees were incurred, of which \$1,336,000 was included in the acquisition costs shown above, and \$311,000 was recorded as integration and restructuring charges. All severance is expected to be paid out during fiscal year 2003. Integration and restructuring charges also included \$1,977,000 related to eliminating and centralizing certain duplicate back office functions. Cost of goods sold included \$1,653,000 related to reversing acquisition date inventory fair market value adjustments as inventory was sold subsequent to the acquisition.

In the fourth quarter of fiscal year 2002, the Company ceased work on an oxygen monitoring technology development project based in part on the results of a review of that technology by engineers from Novamatrix that was conducted after the acquisition. This decision resulted in an impairment charge totaling \$2,006,000 in the fourth quarter representing the write-off of intangible assets, inventory and fixed assets related to the project.

The pro forma summary below presents the Company's results of operations as if the acquisition had occurred at the beginning of the periods presented and does not purport to be indicative of what would have occurred had the acquisition been made as of those dates or of results which may occur in the future. These results do not include costs related to the acquisition or related restructuring and integration costs recorded in fiscal year 2002 or the positive impact of cost reductions and other synergies that are expected to be realized as a result of the acquisition.

Year ended June 30	2002	2001
Pro forma sales	\$ 531,606,000	\$ 477,120,000
Pro forma net income	37,857,000	33,049,000
Pro forma earnings per share	1.12	0.99

Novamatrix had an April fiscal year-end, which differed from the Company's June year-end. In order to develop the fiscal year 2002 pro forma information, the Company's income statement for the year ended June 30, 2002 (which included Novamatrix's results of operations effective April 12, 2002) was combined with Novamatrix's unaudited income statement for the period July 1, 2001 through April 12, 2002. In order to develop the fiscal year 2001 pro forma information, the Company's income statement for the year ended June 30, 2001 was combined with Novamatrix's income statement for the year ended April 29, 2001. Earnings per share data are based on the Company's weighted average number of common shares outstanding plus the total number of the Company's common shares and equivalents delivered to Novamatrix stockholders as part of the acquisition.

In May 2002, the Company acquired a 60% controlling interest in Fuji, RC Co., Ltd., a leading provider of home-care and hospital products and services for respiratory-impaired patients in Japan, and entered into an agreement to purchase all of the remaining outstanding shares of Fuji in a multiple step acquisition by December 31, 2006. The base cash purchase price for all of the outstanding shares is approximately \$12 million with provisions for additional payment to one of the shareholders of Fuji to be made based on operating performance of Fuji over the next four years. These additional payments will be accrued as compensation over the four-year period as they are earned by the shareholder during his post-acquisition employment period. No amounts of the purchase price were assigned to goodwill or other intangible assets since the initial purchase price equaled the fair market value of the net assets acquired.

## Note P

### Earnings per Share

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

Year Ended June 30	2002	2001	2000
Numerator:			
Net Income	\$ 38,416,868	\$ 33,571,284	\$ 5,752,284
Denominator:			
Denominator for basic earnings per share – Weighted average shares	31,079,282	29,962,366	29,660,366
Effect of Dilutive Securities – Stock Options and Warrants	929,077	923,677	343,389
Denominator for diluted earnings per share – Adjusted weighted average shares and assumed conversions	32,008,359	30,886,043	30,003,755
Basic Earnings Per Share	\$ 1.24	\$ 1.12	\$ 0.19
Diluted Earnings Per Share	\$ 1.20	\$ 1.09	\$ 0.19

## Note Q

### Quarterly Results of Operations (Unaudited)

Following are the unaudited quarterly results of operations for the fiscal years ended June 30, 2002 and 2001:

2002 Three Months Ended	September 30	December 31	March 31	June 30
Net Sales	\$ 107,409,000	\$ 117,384,000	\$ 126,708,000	\$ 143,418,000
Gross Profit	50,900,000	54,699,000	59,564,000	68,961,000
Integration, Restructuring and Impairment Charges	0	0	0	4,294,000
Net Income	8,102,000	9,957,000	11,316,000	9,042,000
Basic Earnings Per Share	0.27	0.33	0.37	0.28
Diluted Earnings Per Share	0.26	0.32	0.36	0.27
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

# 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, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2002.

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, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2002, in conformity with accounting principles generally accepted in the United States.

*Ernst + Young LLP*

Pittsburgh, Pennsylvania  
July 23, 2002, except for Note N as to  
which the date is August 19, 2002

# Five-Year Summary

(amounts in thousands except ratios and per share data)

Year Ended June 30	2002	2001	2000	1999	1998
<b>Per Share Data</b>					
Net income (loss)	\$ 1.20 <sup>1</sup>	\$ 1.09	\$ 0.19 <sup>7</sup>	\$ 0.72 <sup>11</sup>	\$ (0.06) <sup>13</sup>
Book value at year end	11.04	7.75	6.49	5.89	6.14
<b>Results of Operations</b>					
Net sales	\$ 494,919	\$ 422,438	\$ 368,184	\$ 357,571	\$ 351,576
Cost of goods sold	260,795 <sup>2</sup>	224,087 <sup>6</sup>	205,230 <sup>6</sup>	186,487	180,650
Income before income taxes	64,036 <sup>3</sup>	55,908	8,576 <sup>8</sup>	38,456 <sup>11</sup>	3,864 <sup>13</sup>
Net income (loss)	38,417 <sup>1</sup>	33,571	5,752 <sup>7</sup>	23,061 <sup>11</sup>	(1,825) <sup>13</sup>
<b>Financial Position at Year End</b>					
Working capital	\$ 198,966	\$ 171,985	\$ 155,095	\$ 155,336	\$ 137,550
Property, plant and equipment (net)	99,935	69,147	66,785	61,230	48,924
Total assets	547,450	367,295	352,577	343,585	318,320
Long-term obligations	59,502	80,055	108,095	99,374	69,316
Shareholders' equity	367,720	235,268	191,106	194,521	200,840
<b>Other Data</b>					
Capital expenditures	\$ 39,830	\$ 28,236	\$ 27,304	\$ 25,629	\$ 20,013
Depreciation and amortization	34,232	28,338	26,706	19,231	14,016
Number of employees at year end	2,589	2,056	1,940	1,988	2,045
Diluted shares outstanding	32,008	30,886	30,004	31,956	32,098
<b>Selected Financial Ratios</b>					
Gross profit as a percent of sales	48% <sup>4</sup>	47% <sup>9</sup>	47% <sup>9</sup>	48%	49%
Income before income taxes as a percent of sales	14% <sup>5</sup>	13%	11% <sup>10</sup>	13% <sup>12</sup>	13% <sup>14</sup>
Effective income tax rate	40% <sup>5</sup>	40%	40% <sup>10</sup>	40% <sup>12</sup>	40% <sup>14</sup>
Net income as a percent of sales	9% <sup>5</sup>	8%	7% <sup>10</sup>	8% <sup>12</sup>	8% <sup>14</sup>
Return on average equity	14% <sup>5</sup>	16%	13% <sup>10</sup>	14% <sup>12</sup>	14% <sup>14</sup>
Debt to equity ratio	16%	34%	57%	51%	35%
Current ratio	2.79x	4.31x	3.91x	4.18x	3.90x

<sup>1</sup> Includes the impact of purchasing accounting adjustment, integration and restructuring charges, and impairment charge. These costs reduced net income by \$3,853,000 (\$0.12 per share) in fiscal year 2002.

<sup>2</sup> Includes the impact of purchasing accounting adjustment, totaling \$1,653,000 in fiscal year 2002.

<sup>3</sup> Includes the impact of purchasing accounting adjustment, integration and restructuring charges, and impairment charge, totaling \$5,947,000 in fiscal year 2002.

<sup>4</sup> Excludes the impact of purchasing accounting adjustment.

<sup>5</sup> Excludes the impact of purchasing accounting adjustment, integration and restructuring charges, and impairment charge.

<sup>6</sup> Includes the impact of restructuring charges, totaling \$725,000 and \$8,710,000 in fiscal years 2001 and 2000, respectively.

<sup>7</sup> 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.

<sup>8</sup> Includes the impact of restructuring charges and an addition to the allowance for doubtful accounts, totaling \$33,696,000 in fiscal year 2000.

<sup>9</sup> Excludes the impact of restructuring charges.

<sup>10</sup> 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.

<sup>11</sup> 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.

<sup>12</sup> Excludes the impact of an addition to the allowance for doubtful accounts and restructuring charges.

<sup>13</sup> 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.

<sup>14</sup> Excludes the impact of merger costs and cost associated with an unsolicited offer to acquire Healthdyne.

# Shareholder Information

## Corporate Headquarters

1010 Murry Ridge Lane  
Murrysville, PA 15668-8525  
(724) 387-5200

## Annual Meeting of Shareholders

The annual meeting of shareholders will be held at Respiroics' Corporate Services facility at 1010 Murry Ridge Lane, Murrysville, Pennsylvania on November 18, 2002 at 5:15 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 October 4, 2002, there were 2,300 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, 2002	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	\$ 37.00	\$ 37.05	\$ 37.88	\$ 36.36
Low	\$ 27.75	\$ 30.54	\$ 23.79	\$ 30.81
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

## 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., 1010 Murry Ridge Lane, Murrysville, PA 15668-8525.

## 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., 1010 Murry Ridge Lane, Murrysville, PA 15668-8525.

### **Market Makers**

Archipelago, L.L.C.  
THE BRUT ECN, LLC  
Cantor, Fitzgerald & Co.  
Cincinnati Stock Exchange  
Credit Suisse First Boston Corporation  
Dain Rauscher Inc.  
Goldman, Sachs & Co.  
Instinet Corporation  
Jefferies & Company, Inc.  
Knight Securities L.P.  
Lehman Brothers Inc.  
McDonald Investments Inc.  
Merrill Lynch, Pierce, Fenner  
Schwab Capital Markets  
Southwest Securities Inc.  
Spears, Leeds & Kellogg  
Timber Hill Inc.

### **Research Coverage**

Banc of America Securities  
Credit Suisse First Boston Corporation  
Deutsche Banc Alex Brown  
Gerard Klauer Mattison & Co., Inc.  
LJR Great Lakes Review  
Parker/Hunter Inc.  
SG Cowen & Company  
Wells Fargo Securities

### **Transfer Agent and Registrar**

Mellon Investor Services LLC,  
85 Challenger Road, Ridgefield Park, NJ 07660  
or [www.melloninvestor.com](http://www.melloninvestor.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

**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**  
President, Hospital Division

## Corporate Officers

**Dorita A. Pishko**  
Corporate Secretary

**James C. Woll**  
Vice President and  
Corporate Controller

## Board of Directors

**Gerald E. McGinnis**  
Chairman of the Board

**James W. Liken**  
President and  
Chief Executive Officer

**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)

**Candace L. Littell**  
President,  
Littell Group, Inc.  
(A consulting firm specializing  
in health policy, payment and  
outcomes management)

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

**John C. Miles II**  
Chairman and  
Chief Executive Officer,  
DENTSPLY International  
(The world's largest manufacturer  
of dental products)

**Craig B. Reynolds**  
Executive Vice President and  
Chief Operating Officer

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