RESPIRONICS®

www.respironics.com

2003 Annual Report //

Financial Highlights

(amounts in thousands except per share data)

Year Ended June 30	2003	2002	2001	2000	1999
Net Sales	**$ 629,817**	$ 494,919	$ 422,438	$ 368,184	$ 357,571
Net Income	**46,581**	38,417	33,571	5,752	23,061
Diluted Earnings per Share	**1.36**[1]	1.20[2]	1.09	0.19[3]	0.72[4]
Diluted Shares Outstanding	**34,344**	32,008	30,886	30,004	31,956
Working Capital	**212,787**	198,966	171,985	155,095	155,336
Long-Term Obligations	**16,513**	59,502	80,055	108,095	99,374
Total Assets	**582,196**	550,911	367,295	352,577	341,179
Shareholders' Equity	**426,869**	367,720	235,268	191,106	194,521

[1] *Includes the impact of restructuring and acquisition-related expenses related to the integration of Novametrix Medical Systems Inc. ("Novametrix") and restructuring of operations at the Kennesaw, Georgia and Wallingford, Connecticut manufacturing facilities, and other acquisition-related costs. These costs reduced net income by $11,286 ($0.32 per share) in fiscal year 2003.*

[2] *Includes the impact of a non-recurring purchase accounting adjustment related to reversing acquisition date inventory fair market value adjustments as inventory was sold subsequent to the acquisition of Novametrix, restructuring and acquisition-related expenses related to the integration of Novametrix, and an asset impairment charge. These costs reduced net income by $3,853 ($0.12 per share) in fiscal year 2002.*

[3] *Includes the impact of restructuring expenses related to the Company's July 1999 restructuring, a specific addition to the allowance for doubtful accounts due to a customer bankruptcy, and a one-time reduction in income tax expense. These costs reduced net income by $19,611 ($0.66 per share) in fiscal year 2000.*

[4] *Includes the impact of a specific addition to the allowance for doubtful accounts and restructuring expenses. These costs reduced net income by $4,449 ($0.14 per share) in fiscal year 1999.*

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To be the worldwide leader at anticipating needs and providing valued solutions to the sleep and respiratory markets.

Corporate Profile Respironics is a global resource in the medical device market that provides innovative products and unique programs to healthcare providers to help them 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.

(from left to right)

Daniel J. Bevevino
Chief Financial Officer

James W. Liken
President and
Chief Executive Officer

John L. Miclot
Chief Strategic Officer

Craig B. Reynolds
Chief Operating Officer

Letter to our Shareholders //

This was an exciting year for Respironics. Several years ago, I said that we would reinvent our future and we have done so. I said that we would reclaim our leadership position in the industry, and we have. I said that we would reposition ourselves as a global force, which we have done. We have recognized opportunities, developed exceptional solutions and established new expectations. Achievement... Enthusiasm... Momentum... this is a model for success that most companies hope for. At Respironics, it is now a model that we enjoy.

Our company has grown financially as well as through the talent and dedication of our associates worldwide. For the year ending June 30, 2003, we achieved our financial goals of net sales of $629.8 million representing a 27 percent increase over the previous fiscal year's $494.9 million. Net income, including expenses for restructuring operations and acquisition-related costs, increased to $46.6 million. Excluding the impact of these charges, which totaled $18.1 million on a pre-tax basis or $0.32 per share after-tax, net income increased by 37 percent over the previous year (excluding non-recurring items).

I attribute much of our continued success to our customer-oriented approach to business. Four years ago, Respironics committed itself to addressing the needs of its customers through Power Programs™ — a solutions-based marketing strategy designed to help our customers grow their businesses, increase efficiencies and improve patient outcomes. This program-approach offered healthcare professionals worldwide supplemental tools to improve patient compliance and helped to establish Respironics as a resource for, not only innovative products, but also unique services.

Whether in a homecare, clinical or hospital setting, Respironics' product and program offerings are designed to help customers bring unique solutions to their markets and to meet the on-going challenges of the global healthcare marketplace. Providing unique value-added and cost-effective solutions to our customers is a formidable task. Every country presents unique challenges, yet our ability to be flexible and responsive, while promoting compliance and improved efficiency, has differentiated us from our competition. Since the launch of our Power Programs strategy, Respironics' success continues to expand both domestically and abroad.

In 2003, Respironics' Homecare Division re-energized the international sleep disorder industry with the launch of a new, revolutionary technology, C-Flex™. Currently available in our REMstar® Pro CPAP System, C-Flex provides patients using sleep therapy greater comfort at night by taking the "work" out of exhalation. This amazing technology tracks — and reacts to — the patient's every breath throughout the night making breath-by-breath adjustments to ensure the optimal level of pressure relief for more comfortable therapy. Respironics plans to integrate the C-Flex technology into other product lines over time, and to continue to penetrate world markets with this technology.

Notable success was also enjoyed by the Division's specialized sales force — the Sleep Management Group — which focuses on expanding the sleep-testing marketplace. Comprised of technical sales specialists and sleep sales consultants, the Sleep Management Group works with customers to identify and develop opportunities for facility-based diagnostic and ambulatory testing, and to promote the benefits of Respironics' sleep testing and respiratory equipment within testing facilities.

Children's Medical Ventures also proved to be a strong contributor for the Homecare Division. The strength of our developmental care products, combined with our respiratory monitors, respiratory recorders and jaundice management tools, uniquely positions us for continued penetration in neonatal and pediatric intensive care units, as well as in the home. I anticipate continued growth from this portion of our Homecare Division's business. With state-of-the-art technology and dedicated sales channels, I look for the Homecare Division to continue to produce strong financial results for our company.

The Hospital Division of Respironics enjoyed increased success in fiscal year 2003, driven by a solutions-based selling strategy that integrates products and tools designed to improve patient outcomes, increase the quality of clinician data and help control costs. Respironics' Total Ventilation Solutions℠ integrates our line of ventilators with our monitors and hospital interface products for invasive or noninvasive therapy across the continuum of care. This marketing strategy brings to more and more hospitals the tools and technologies they need to meet a variety of ventilation situations.

The Hospital Division's success can also be attributed to continued acceptance of our Esprit® Critical Care Ventilator and NICO® Cardiopulmonary Management System. By combining the unique monitoring capabilities of the NICO with the performance and simplicity of the Esprit, Respironics is making cardiorespiratory care less invasive, more comfortable and more precise than ever before.

Our Asthma Division continues to build upon the success of its Zoey™ and the Zones pediatric program where loveable characters help children understand and better manage their asthma. The program, offered in both English and Spanish, benefits retail pharmacies by positioning them as unique asthma resource centers. Zoey and the Zones is also used in hospitals as a comprehensive and one-of-a-kind treatment program which includes treatment protocols and educational tools.

The Asthma Division offers educational tools and products for asthmatics of all ages through various channels. Respironics' asthma products are available through pharmacies, retail chains, hospitals and outpatient facilities, as well as through managed care. The availability of our products, combined with essential educational tools, helps to improve patient compliance and therefore reduces problems associated with patients not following treatment plans.

Core Practices //

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

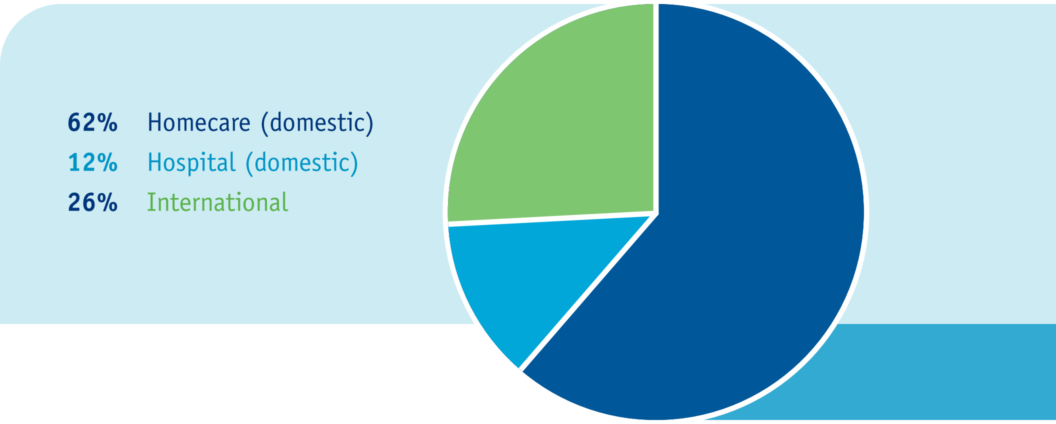
Our International Division showed outstanding performance as a result of both ongoing initiatives to strengthen our internal sales force, and strategic acquisitions such as Fuji-RC, to expand our international reach. These investments are creating value for our customers and our shareholders, and achieved results that exceeded our expectations in fiscal year 2003. During the recent international outbreak of SARS (Severe Acute Respiratory Syndrome), some governments in the Far East would only approve the use of respiratory equipment that had been used previously in their country. Our well-established relationships with distributors in this part of the world allowed us to respond quickly to patient needs by placing noninvasive and invasive respiratory products in hospitals to help alleviate the health crisis in these areas.

Fuji-RC has proven to be a very effective platform for penetrating and growing the Japanese sleep and respiratory marketplace. Its 62 locations sell to hospitals and provider services into homes throughout the country. With the Japanese sleep market in its infancy, Respironics is well positioned to promote the diagnosis and treatment of sleep disordered breathing. I was pleased with the strong growth in this market for fiscal 2003 and anticipate continued strong results into fiscal 2004.

Respironics currently does business in 102 countries, with our key international markets being Europe, Central and South America and Asia-Pacific. As we look to the future, we seek to increase market penetration in those regions, as well as explore opportunities in new lands. I anticipate sustained gains from the International Division as we continue our strategy of strengthening and improving our international resources.

Innovation is the foundation of our success, and we will continue to use our extensive marketplace knowledge, our understanding of customers' needs, and our concern for patients to drive product development in fiscal 2004. Respironics continues to be recognized for setting the pace for research and development in our industry. Fiscal 2003 was one of our most successful years, with the launch of REMstar PRO with C-Flex. Transfer of this technology into other Respironics products is expected in the new fiscal year and anticipation among our customer base is growing. We enhanced the Esprit® Ventilator with the introduction of the Communication Option, which provides caregivers a host of real-time patient data, and the release of updated software focusing on lung mechanics and weaning parameters.

Respironics also launched the ComfortFull™ Face Mask—a niche mask designed for patients who have difficulty tolerating traditional sleep therapy interface devices. The mask covers both the nose and the mouth to help improve compliance and outcomes. On the hospital side, we introduced a single-use full face mask, the Image3™ SE, designed to enhance patient comfort by distributing



tension evenly while adding stability for a more secure fit with fewer leaks. Fiscal 2003 also saw the release of the OptiChamber® Advantage Pediatric Mask which adapts to a growing patient's needs without incurring the cost of a new product. The needs of the marketplace will drive our research and development efforts, and we will continue to dedicate the resources necessary to find new and innovative solutions for our customers and their patients.

The momentum generated in fiscal 2003 has already carried over into fiscal 2004. Product development, program development, and financial growth are all expected to continue as we seek opportunities for focused and strategic expansion. We remain steadfast in our commitment to become the leading worldwide resource for innovative products and programs that help our customers successfully grow their businesses and improve their patients' quality-of-life. We will commit the needed resources to achieve this goal, not only for ourselves, but also for those whose lives are touched by our people, our products and our programs.

I would like to extend my gratitude to our Board of Directors for their ongoing dedication and strategic guidance. I would also like to thank the more than 2,700 Respironics associates around the world who work so hard for this company. Their dedicated effort is reflected in our success. Every job in this company is important, and each of our associates understands that his or her contribution impacts our customers and their patients.

Our objective for fiscal 2004 is to continue to achieve consistent growth, with the goal of exceeding $700 million in revenues. I am confident that the momentum of fiscal 2003 will drive Respironics to unparalleled success with continued and sustained growth for many years to come.

Sincerely,

James W Liken

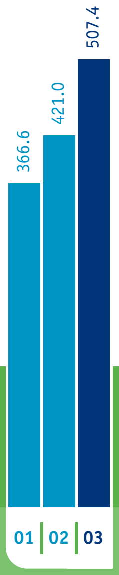
James W. Liken
President and Chief Executive Officer

International //

Respironics' reputation as an innovative force in the global respiratory marketplace continues to grow with strategic platforms in Europe, Central and South America, and the Pacific Rim. Products and programs focused on the homecare, the hospital and the asthma marketplaces are distributed to 102 countries around the world.

Last year we successfully integrated Fuji-RC in Japan. With 62 locations, Fuji-RC sells to hospitals and provides products and services to homes throughout that country. This strategic acquisition helps to position Respironics for long-term success in Japan, a country in its infancy in the diagnosis and treatment of sleep disordered breathing.

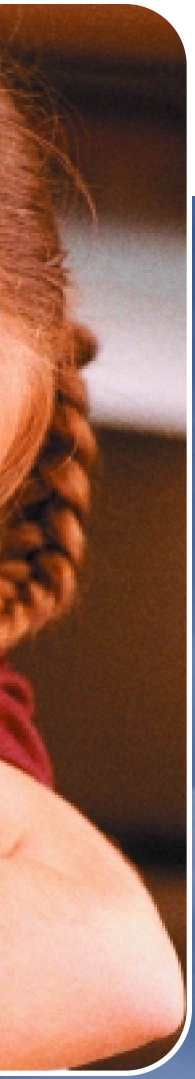
Working with global distributors and a strong and robust sales force, Respironics will continue to expand its global reach to support our customers in the unique healthcare environments of the world.



Net Sales
dollars in millions

Homecare //

Respironics is the recognized leader in the home respiratory marketplace and holds the number one position in sleep therapy. Our company is recognized as a leading worldwide resource for healthcare professionals working with patients in the home, for sleep labs diagnosing sleep disordered breathing, and—with the successful acquisition of Children's Medical Ventures—in neonatal intensive care units. Respironics' unique products and successful program strategies help health care providers grow their businesses and drive these markets. With a continuous stream of innovative products and programs, Respironics expects to maintain its reputation as a dynamic force in this industry among customers and our competition.



Programs

Sleep Management

Designed to help increase the awareness, diagnosis and treatment of Obstructive Sleep Apnea, the Sleep Management Program offers home care providers and sleep professionals marketing strategies, education and the latest technology to increase patient identification, promote self management, and track treatment in order to raise overall patient compliance and to improve quality of life.

Chronic Respiratory Management

Designed to provide customers with the tools to identify and manage chronic respiratory disease in the home with oximetry, oxygen therapy, noninvasive bilevel ventilation and delivery of respiratory medication. The program seeks to keep patients compliant with therapies and to improve treatment, promote self-management and raise a patient's quality of life.

Neonatal and Infant Care

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

Asthma Management

Designed to offer comprehensive educational tools and user-friendly products for pediatric and adult asthma disease management in the home, hospital and 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.

Products

Comfort Series™ of Masks

REMstar® CPAPs with C-FLEX™

Encore® Pro with SmartCard®

BiPAP® Pro with Bi-Flex®

Stardust® Portable Sleep Diagnostic Device

Alice® Sleep Diagnostic System

BiPAP® Synchrony®
Ventilatory Support System

Zoey™ and the Zones Pediatric
Asthma Care Products and Programs

Millennium Respironics™
Oxygen Concentrator

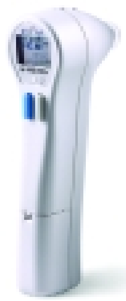
BiliChek® Noninvasive Bilirubin Analyzer

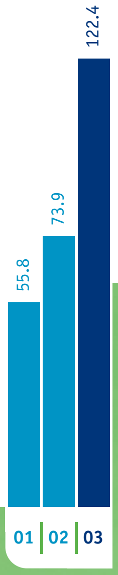
Neonatal and Infant Developmental
Care Products

**Millennium Respironics™
Oxygen Concentrator**

**REMstar® PRO
with C-FLEX™**

**BiliChek® Noninvasive
Bilirubin Analyzer**





Net Sales

dollars in millions

Programs

Total Ventilation Solutions℠
Designed to help clinicians treat hospitalized patients with invasive and noninvasive respiratory diagnostics, monitoring and therapy solutions. Total Ventilation Solutions offers the right balance of products by combining the NICO® noninvasive cardiopulmonary monitoring system, with ventilators, such as the Esprit®, as well as monitoring products, and patient interface devices. With this program, a clinician has a variety of treatment options, and can decide how best to optimize this state-of-the-art technology over the continuum of ventilated care.

Products

Esprit® Critical Care Ventilator

BiPAP® Vision® Ventilatory Support System

Performance Series™ Masks and Accessories

NICO® Cardiopulmonary Management System

CO2SMO® Plus! Respiratory Profile Monitor

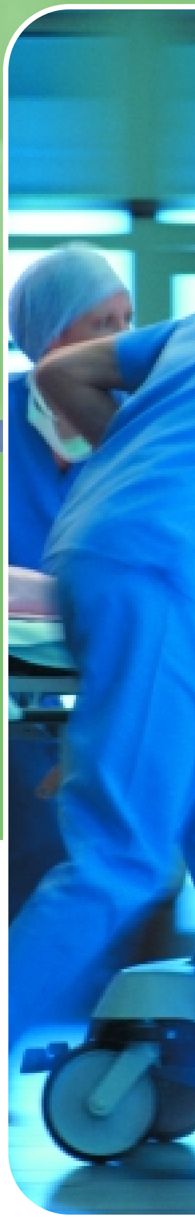
CO2SMO® Mainstream Capnograph & Pulse Oximeter

MARSpO2™ Motion Artifact Rejection System Pulse Oximeter

BiPAP® Vision® Ventilatory Support System

Esprit® Critical Care Ventilator

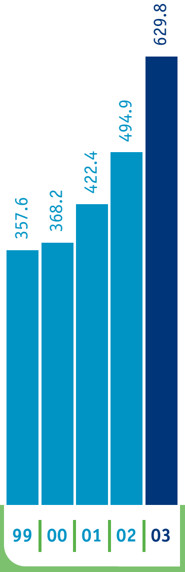
Performance Series™ Masks and Accessories



Hospital //

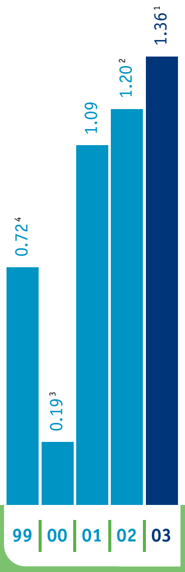
Respironics' presence in the hospital market continues to strengthen. With the acquisition of Novametrix Medical Systems Inc. complete, Respironics has established itself as a single source solutions resource for invasive and noninvasive respiratory diagnostics and therapeutics. Focusing on the leading trends in respiratory care, Respironics works primarily with professionals in the acute and sub-acute areas of a hospital, implementing Total Ventilation Solutions℠—a program that provides customized ventilation solutions to assist facilities with cost-effective treatment tools for the successful care of their patients.

NICO® Cardiopulmonary Management System



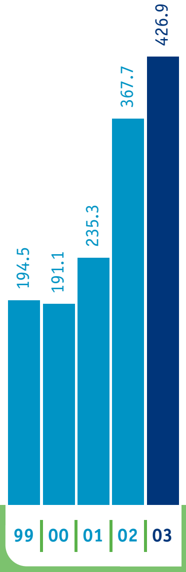
Net Sales

dollars in millions



Diluted Earnings Per Share

dollars



Shareholders' Equity

dollars in millions

[1] Includes the impact of restructuring and acquisition-related expenses related to the integration of Novametrix Medical Systems Inc. ("Novametrix") and restructuring of operations at the Kennesaw, Georgia and Wallingford, Connecticut manufacturing facilities, and other acquisition-related costs. These costs reduced net income by $11,286 ($0.32 per share) in fiscal year 2003.

[2] Includes the impact of a non-recurring purchase accounting adjustment related to reversing acquisition date inventory fair market value adjustments as inventory was sold subsequent to the acquisition of Novametrix, restructuring and acquisition-related expenses related to the integration of Novametrix, and an asset impairment charge. These costs reduced net income by $3,853 ($0.12 per share) in fiscal year 2002.

[3] Includes the impact of restructuring expenses related to the Company's July 1999 restructuring, a specific addition to the allowance for doubtful accounts due to a customer bankruptcy, and a one-time reduction in income tax expense. These costs reduced net income by $19,611 ($0.66 per share) in fiscal year 2000.

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2003 Financial Review //

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

Results of Operations

Fiscal Year Ended June 30, 2003, Compared to Fiscal Year Ended June 30, 2002:

Net Sales: Net sales for the year ended June 30, 2003 were $629,817,000 representing a 27% increase over sales of $494,919,000 recorded for the year ended June 30, 2002. The Company's sales growth occurred across all product groups, summarized as follows.

	Year Ended June 30		Dollar	Percent
	2003	2002	Increase	Increase
Domestic Homecare Products	$ 388,516,000	$ 339,339,000	$ 49,177,000	14%
Domestic Hospital Products	79,427,000	57,468,000	21,959,000	38%
International Products	161,874,000	98,112,000	63,762,000	65%
Total	**$ 629,817,000**	**$ 494,919,000**	**$ 134,898,000**	**27%**

Domestic homecare sales for the year ended June 30, 2003 were driven primarily by growth in sales of sleep apnea therapy devices, masks, and accessories (the Company's largest product line), and sales of developmental infant care products acquired from Novametrix Medical Systems Inc. (now known as "Respironics Novametrix, LLC" and referred to herein as "Novametrix"), partially offset by decreases in sales of the Company's home oxygen products. Sales of hospital products for the year ended June 30, 2003 were driven primarily by growth in sales of hospital ventilators and accessories and sales of cardio-respiratory monitoring devices acquired from Novametrix. The Company's growth internationally included sales from both homecare and hospital products, with the most significant increases coming from homecare sleep apnea therapy devices, incremental revenues resulting from the Novametrix and Fuji RC Kabushiki Kaisha ("Fuji") acquisitions, and demand for ventilation products associated with the treatment of SARS (Severe Acute Respiratory Syndrome) during the fourth quarter of 2003.

In total, sales for the year ended June 30, 2003 included approximately $35,400,000 of incremental net sales from the products of Novametrix, a leading cardio-respiratory monitoring company that was acquired by the Company during the fourth quarter of fiscal year 2002. Sales for the year ended June 30, 2003 also included approximately $28,500,000 of incremental sales for Fuji, a provider of respiratory products and services 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 of both companies since the acquisition dates. For additional information regarding Novametrix and Fuji, see Note P to the Consolidated Financial Statements.

Excluding the acquired revenues, sales for the year ended June 30, 2003 represented a 14% increase over sales recorded for the year ended June 30, 2002.

Gross Profit: The Company's gross profit was 51% for the year ended June 30, 2003 compared to 47% of net sales for the year ended June 30, 2002. The increase in gross profit percentage was primarily due to higher revenue, product sales mix, cost reductions, and the impact of higher gross margins from acquired entities.

General and Administrative Expenses: General and administrative expenses were $85,767,000 (14% of net sales) for the year ended June 30, 2003 as compared to $60,719,000 (12% of net sales) for the year ended June 30, 2002. The increase for the year ended June 30, 2003 was due primarily to general and administrative expenses for the Company's two acquired companies, Novametrix and Fuji. The remaining increases in general and administrative expenses resulted from higher spending in a variety of areas, including employee compensation and information systems, consistent with the growth of the Company's business, and increases in business insurance and product warranty costs. General and administrative expenses for the year ended June 30, 2002 included goodwill amortization expense in the amount of $3,507,000. As of July 1, 2002 the Company ceased amortizing goodwill due to the adoption of Financial Accounting Standards Board Statement No. 142, "Goodwill and Other Intangible Assets." For additional information, see Note A to the Consolidated Financial Statements.

Sales, Marketing and Commission Expenses: Sales, marketing and commission expenses were $116,300,000 (18% of net sales) for the year ended June 30, 2003 as compared to $86,189,000 (17% of net sales) for the year ended June 30, 2002. The majority of the increase was due to sales and marketing expenses for the Company's two acquired companies, Novametrix and Fuji, and increases in sales levels from the year ago periods. The remainder of the increase was due to increased investments in the Company's core sales and marketing programs.

Research and Development Expenses: Research and development expenses were $24,047,000 (4% of net sales) for the year ended June 30, 2003 as compared to $17,317,000 (3% of net sales) for the year ended June 30, 2002. A significant amount of the increase in absolute dollars was due to research and development expenses incurred at Novametrix. The remaining increases were due to the Company's continuing commitment to research, development and new product introductions. In the 2003 fiscal year several new products were introduced, such as the REMstar Pro with C-Flex, REMstar Plus True Compliance, and REMstar Lite CPAP devices, the Synchrony Avaps bi-level obstructive sleep apnea therapy unit, new masks including the ComfortFull and Image 3 Deluxe, product software enhancements including the Encore Pro communication link, Sleep Link with modem, and enhancements to the Esprit ventilation system, and the Stardust II sleep diagnostic unit. Significant product development efforts are ongoing and new product launches in many of the Company's major product lines are scheduled for the next six to eighteen months. Additional development work and clinical trials are being conducted in certain product areas and markets outside the Company's current core products and patient groups.

Restructuring and Acquisition-Related Expenses: During the year ended June 30, 2003, the Company incurred restructuring and acquisition-related expenses of $18,144,000, related to the previously disclosed integration of Novametrix and restructuring of operations at the Kennesaw, Georgia and Wallingford, Connecticut manufacturing facilities, and other acquisition-related costs. Of this amount, $17,789,000 is included in restructuring and acquisition-related expenses, and $355,000 is included in cost of goods sold in the Consolidated Statement of Operations for the year ended June 30, 2003. See Notes O and P to the Consolidated Financial Statements for additional information regarding restructuring and acquisition-related expenses.

As part of the acquisition of Novametrix, 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 during the fourth quarter of fiscal year 2002, the Company incurred restructuring and acquisition-related expenses of $2,288,000 related to the Novametrix 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 Novametrix.

Interest and Other Expenses: Interest and other expenses were $640,000 for the year ended June 30, 2003 as compared to $1,568,000 for the year ended June 30, 2002. The decrease was due to reductions in the amount of outstanding borrowings and interest rates under the Company's Revolving Credit Agreement.

Income Taxes: The Company's effective income tax rate was approximately 38% for the year ended June 30, 2003 as compared to 40% for the year ended June 30, 2002. This reduction was due primarily to the impact of eliminating non-deductible goodwill amortization effective July 1, 2002, and the income tax benefits associated with various ongoing tax planning strategies.

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.

Net Income: As a result of the factors described above, the Company's net income was $46,581,000 (7% of net sales) or $1.36 per diluted share for the year ended June 30, 2003 as compared to net income of $38,417,000 (8% of net sales) or $1.20 per diluted share for the year ended June 30, 2002. The restructuring and acquisition-related expenses described above constituted a reduction of $0.32 and $0.12 per diluted share on an after-tax basis, respectively, for the years ended June 30, 2003 and 2002.

Fiscal Year Ended June 30, 2002, Compared to Fiscal Year Ended June 30, 2001:

Net Sales: 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.

The Company's sales growth occurred across all product groups, summarized as follows.

	Year Ended June 30		Dollar	Percent
	2002	2001	Increase	Increase
Domestic Homecare Products	$ 339,339,000	$ 292,164,000	$ 47,175,000	16%
Domestic Hospital Products	57,468,000	44,176,000	13,292,000	30%
International Products	98,112,000	86,098,000	12,014,000	14%
Total	**$ 494,919,000**	**$ 422,438,000**	**$ 72,481,000**	**17%**

Increases in unit and dollar sales for the Company's obstructive sleep apnea therapy devices and oxygen concentrator devices, as well as increases in the sales of masks and accessories, helped to drive the increase in sales. 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.

Fiscal year 2002 sales included approximately $12,700,000 of net sales for Novametrix. Included in the sales from Novametrix were approximately $9,500,000 of net sales for cardio-respiratory hospital devices and approximately $3,200,000 of net sales for developmental infant care products. Fiscal year 2002 sales also include one month of incremental sales for Fuji.

Gross Profit: The Company's gross profit was 47% for fiscal years 2002 and 2001. Gross profit in the 2002 fiscal year was favorably impacted by higher revenue, the impact of higher gross margin from acquired entities, and a shift in sales mix, offset by costs associated with purchase accounting adjustments and restructuring expenses described above.

General and Administrative Expenses: General and administrative expenses were $60,719,000 (12% of net sales) for fiscal year 2002 and $50,126,000 (12% of net sales) for fiscal year 2001. 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 both years 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 both 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 an uncollectible balance due from one of the Company's significant hospital distribution customers which ceased operations during that year.

Sales, Marketing and Commission Expenses: 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. The increase in absolute dollars of expense was 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 Novametrix and Fuji since their acquisition dates.

Research and Development Expenses: 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. The increase in absolute dollars was due to the Company's continuing commitment to research, development and new product introduction. The 2002 fiscal year also included additional research and development expense for Novametrix. In the 2002 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.

Restructuring and Acquisition-Related Expenses: During fiscal year 2001, the Company incurred restructuring expenses of $800,000, primarily for inventory write-offs of discontinued products related to the Company's previously disclosed restructuring of its U.S. operations that occurred during the 2000 fiscal year. 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.

Interest and Other Expenses: Interest and other expenses were $1,568,000 for the year ended June 30, 2002 as compared to $6,516,000 for the year ended June 30, 2001. The decrease was due to reductions in the amount of outstanding borrowings and interest rates under the Company's Revolving Credit Agreement.

Income Taxes: The Company's effective income tax rate was 40% for fiscal years 2002 and 2001.

Net Income: 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.

Financial Condition, Liquidity, and Capital Resources

The Company had working capital of $212,787,000 at June 30, 2003 and $198,966,000 at June 30, 2002. Net cash provided by operating activities was $124,293,000 for the year ended June 30, 2003, compared to $87,484,000 for the year ended June 30, 2002 and $52,224,000 for the year ended June 30, 2001. The increase in cash provided by operating activities for all years was primarily due to an increase in net income before the impact of depreciation and amortization expense. Fiscal year 2003 cash flow was also positively impacted by increases in accrued expenses. 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 $47,444,000, $44,556,000, and $27,599,000 for fiscal years 2003, 2002, and 2001, respectively. The majority of the cash used by investing activities for all periods represented capital expenditures, including the purchase of leasehold improvements, production equipment, computer hardware and software, telecommunications and office equipment; in the current fiscal year, the production of equipment leased to customers; and in the 2002 fiscal year, the purchase of the Company's corporate headquarters facility. In the current fiscal year, cash used by investing activities also includes transaction costs related to the Novametrix acquisition and the Company's acquisition of the BiliChek Non-invasive Bilirubin Analyzer product line from SpectRx, Inc. that is more fully described in Note P to the Consolidated Financial Statements. In fiscal year 2002, cash used by investing activities also included the purchase price paid for Novametrix and Fuji, net of cash acquired. 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. The funding for investment activities in all periods was provided by positive cash flow from operating activities and accumulated cash and cash equivalents.

Net cash used by financing activities consists primarily of repayments under the Company's various long-term obligations, partially offset by proceeds from the issuance of common stock under the Company's stock option plans. Net cash used by financing activities was $43,284,000, $7,914,000, and $16,899,000 for fiscal years 2003, 2002, and 2001, respectively. Debt pay-downs, net of borrowings, were $53,527,000, $16,667,000, and $25,448,000 for fiscal years 2003, 2002, and 2001, respectively.

As previously disclosed, 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. On July 1, 2003, the U.S. Bankruptcy Court approved the customer's reorganization plan. The confirmed plan allows the customer to continue its business operations uninterrupted, and all creditors and vendors are to be paid 100% of all amounts they are owed, either immediately or over time with interest. The Company received the first installment payment on its pre-petition balance in July 2003 as scheduled based on the reorganization plan.

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 $138,498,000 at June 30, 2003), 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).

Contractual Obligations and Off-Balance Sheet Arrangements

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 G and I to the Consolidated Financial Statements for additional information about these obligations and commitments. The composition and nature of these obligations and commitments have not changed materially since June 30, 2002, other than the new Revolving Credit Agreement described below.

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 through August 2005 with terms and financial covenants similar to those contained in the Company's prior credit facility. The new Revolving Credit Agreement is unsecured and contains certain financial covenants with which the Company must comply. The Company is currently in compliance with these covenants. The interest rate on the revolving credit facility is based on a spread over the London Interbank Borrowing Rate ("LIBOR"). As of June 30, 2003, the Company had $10,000,000 of outstanding borrowings under the revolving credit facility at an interest rate of 2.09%. This amount was paid in its entirety on August 21, 2003.

The following table summarizes significant contractual obligations and commercial commitments of the Company as of June 30, 2003:

Contractual Obligations and Commercial Commitments

		Payments Due by Period			
Contractual Obligations	Total	Less Than 1 Year	1–3 Years	4–5 Years	Over 5 Years
Long-Term Debt	$ 13,988,000	$ 10,545,000	$ 2,282,000	$ 998,000	$ 163,000
Capital Lease Obligations	20,833,000	7,779,000	9,344,000	3,710,000	–
Operating Leases	31,356,000	7,263,000	10,150,000	6,880,000	7,063,000
Amounts payable to selling shareholder of Fuji that are included in Other Non-Current Liabilities as of June 30, 2003	7,491,000	1,415,000	2,727,000	3,349,000	–
Total Contractual Obligations	**$ 73,668,000**	**$ 27,002,000**	**$ 24,503,000**	**$ 14,937,000**	**$ 7,226,000**

		Amount of Commitment Expiration Per Period			
Other Commercial Commitments	Total Amounts Committed	Less Than 1 Year	1–3 Years	4–5 Years	Over 5 Years
Letters of Credit	**$ 1,912,000**	**$ 1,502,000**	**$ 410,000**	**$ –**	**$ –**

In addition to the amounts payable to the selling shareholder of Fuji that are included in other non-current liabilities as of June 30, 2003 as set forth in the contractual obligations and commercial commitments table above, the Company is obligated to make future payments under earn-out provisions pertaining to the acquisitions of Fuji and BiliChek, for which the amount of the obligations will not be known until the occurrence of future events. See Note P to the Consolidated Financial Statements for additional information about these obligations.

In connection with customer leasing programs, the Company uses independent leasing companies for the purpose of providing financing to certain customers for the purchase of the Company's products. 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 Financial Accounting Standards Board ("FASB") Statement 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 $12,147,000 at June 30, 2003 as compared to $18,428,000 at June 30, 2002. Approximately 8% of the Company's net sales were made under these financing arrangements during the year ended June 30, 2003, of which a portion was made with recourse. The Company is not dependent on these off-balance sheet arrangements.

The remainder of these installment receivables (consisting of installment receivables acquired as part of the Novametrix acquisition) do not meet the criteria of FASB No. 140 and therefore are recorded as collateralized borrowing arrangements. Accordingly, at June 30, 2003 and June 30, 2002, the Company has included $1,049,000 and $11,826,000, respectively, of receivables sold with recourse in prepaid expenses and other current assets, and has recorded offsetting amounts at those dates in accrued expenses and other current liabilities. Effective March 31, 2003, the Company entered into an agreement with the third party financing company that is counterparty to these receivables. The terms of the agreement place a cap on the Company's recourse obligation at $1,049,000. The Company is required to place this amount in escrow, which will be drawn to fund delinquent receivables that the Company is required to repurchase, up to the cap amount. Any amounts remaining in escrow when the collateralized leases are fully paid will be returned to the Company, including interest.

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, 2003, the Company had total long-term obligations, including the current portion of those obligations, of $34,821,000. Of that amount, $24,621,000 was in fixed rate obligations and $10,200,000 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, 2003 weighted-average interest rate of 2.08% to a weighted-average interest rate of 2.29%), annual interest expense would be approximately $21,000 higher based on the June 30, 2003 outstanding balance of variable-rate obligations. The Company repaid substantially all of its variable rate obligations in August 2003. The Company has no interest rate hedging 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, 2003, sales at subsidiaries with functional currencies other than the U.S. dollar totaled $111,359,000, or approximately 18% of total sales. For the year ended June 30, 2003, pre-tax income at subsidiaries with functional currencies other than the U.S. dollar totaled $22,238,000, or approximately 30% of total pre-tax income (or 24% of pre-tax income, excluding the restructuring and acquisition-related expenses disclosed in Notes O and P of the Consolidated Financial Statements). An adverse change of 10% in exchange rates would have resulted in a decrease in sales of $10,124,000 and a decrease in pre-tax income of $2,022,000 for the year ended June 30, 2003. The Company's subsidiaries that operate in Germany, France, Japan, Hong Kong and China have certain sales, expenses, and accounts receivable and payable denominated in U.S. dollars in addition to sales, expenses, and accounts receivable and payable in their local currencies that further mitigate the impact of foreign exchange rate changes. Foreign currency losses included in the determination of the Company's net income were $443,000 for the year ended June 30, 2003. As of June 30, 2003, the Company had not hedged foreign currency risks. Effective July 1, 2003, the Company acquired foreign currency option contracts to hedge a portion of its Japanese yen foreign currency risks for the 2004 fiscal year.

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

New Accounting Pronouncements

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities," in an effort to expand upon and strengthen existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities and activities of variable interest entities, including special-purpose entities or off-balance sheet structures. The consolidation requirements of FIN No. 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company is currently evaluating the impact of FIN No. 46 on its financial position and results of operations.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB No. 133. This Statement is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company is currently evaluating the provisions of FASB No. 149, and will assess the prospective impact on its financial position and results of operations for derivative contracts entered into after June 30, 2003.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement affects the issuer's accounting for three types of freestanding financial statements: mandatorily redeemable shares, put and forward purchase contracts that require the issuer to buy back some of its shares in exchange for cash or other assets, and certain obligations that can be settled in shares. This statement is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The Company believes the impact of FASB No. 150 on its financial position and results of operations will not be material.

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 service is performed. The Company's revenue transactions are sometimes made pursuant to standard terms and conditions included in distributor agreements and customer contracts. These contracts generally include price lists that apply to specified products shipped to customers during the terms of their agreement. These contracts also generally include rights of return provisions that only permit customers to return sold product in the case of defective product or order entry, shipping, or similar error made by the Company. Product returns are generally insignificant in relation to net sales. Certain customers' and group purchasing organizations' contracts provide customers with price rebates based on their level of purchases from the Company. Rebates are accrued by the Company as a reduction in net sales as they are earned by customers. Price discounts that may be awarded to customers for payment of invoices within specified periods are recorded as reductions to net sales at the time of payment and are generally insignificant in relation to net sales. 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 healthcare 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 historical and 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 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 positive cash flows. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets 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 would be written down to their fair market values. 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 "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, 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	2003	2002
Assets		
Current Assets		
Cash and cash equivalents	$ 95,900,114	$ 62,334,684
Trade accounts receivable	128,126,999	121,281,073
Inventories	83,986,140	86,632,027
Prepaid expenses and other current assets	7,890,194	23,875,193
Deferred income tax benefits	24,111,838	19,189,948
Total Current Assets	**340,015,285**	**313,312,925**
Property, Plant and Equipment		
Land	2,868,310	2,867,555
Buildings	16,888,036	16,049,671
Production and office equipment	218,839,491	188,806,072
Leasehold improvements	7,630,418	6,413,872
	246,226,255	214,137,170
Less allowances for depreciation and amortization	147,546,282	114,202,311
	98,679,973	**99,934,859**
Other Assets	**34,591,712**	**33,802,545**
Goodwill	**108,909,352**	**103,860,749**
Total Assets	**$ 582,196,322**	**$ 550,911,078**
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 40,531,413	$ 39,081,748
Accrued expenses and other current liabilities	68,389,269	46,419,566
Current portion of long-term obligations	18,307,876	28,845,785
Total Current Liabilities	**127,228,558**	**114,347,099**
Long-Term Obligations	**16,513,243**	**59,502,381**
Other Non-Current Liabilities	**11,585,202**	**9,341,531**
Shareholders' Equity		
Common Stock, $.01 par value; authorized 100,000,000 shares; issued 37,505,700 shares at June 30, 2003 and 36,885,795 shares at June 30, 2002; outstanding 33,957,221 shares at June 30, 2003 and 33,293,070 shares at June 30, 2002	375,057	368,858
Additional capital	226,884,681	213,837,023
Accumulated other comprehensive loss	(3,557,902)	(2,718,213)
Retained earnings	245,031,878	198,450,389
Treasury stock	(41,864,395)	(42,217,990)
Total Shareholders' Equity	**426,869,319**	**367,720,067**
Total Liabilities and Shareholders' Equity	**$ 582,196,322**	**$ 550,911,078**

See notes to consolidated financial statements.

Consolidated Statements of Operations

Year Ended June 30	2003	2002	2001
Net sales	$ 629,817,447	$ 494,918,654	$ 422,437,862
Cost of goods sold	310,385,469	260,795,012	224,087,110
	319,431,978	**234,123,642**	**198,350,752**
General and administrative expenses	85,766,678	60,718,793	50,125,593
Sales, marketing and commission expenses	116,299,669	86,188,885	72,428,211
Research and development expenses	24,047,538	17,317,462	15,281,233
Restructuring and acquisition-related expenses (credit)	17,788,719	4,294,120	(1,908,581)
Interest and other expenses	639,520	1,568,165	6,516,252
	244,542,124	**170,087,425**	**142,442,708**
Income Before Income Taxes	**74,889,854**	**64,036,217**	**55,908,044**
Income taxes	28,308,365	25,619,349	22,336,760
Net Income	**$ 46,581,489**	**$ 38,416,868**	**$ 33,571,284**
Basic earnings per share	**$ 1.39**	**$ 1.24**	**$ 1.12**
Basic shares outstanding	**33,585,173**	**31,079,282**	**29,962,366**
Diluted earnings per share	**$ 1.36**	**$ 1.20**	**$ 1.09**
Diluted shares outstanding	**34,344,003**	**32,008,359**	**30,886,043**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

	Common Stock		Additional	Accumulated Comprehensive	Retained	Treasury Stock		
	Shares	Amount	Capital	Income (Loss)	Earnings	Shares	Amount	Total
Balance at June 30, 2000	**33,182,565**	**$331,826**	**$110,795,650**	**$(3,131,703)**	**$126,462,237**	**3,733,498**	**$(43,352,117)**	**$191,105,893**
Shares sold pursuant to stock option and purchase plans	831,220	8,312	7,777,144	–	–	(94,329)	763,750	8,549,206
Income tax benefit from exercise of stock options	–	–	3,147,495	–	–	–	–	3,147,495
Comprehensive income (loss):								
Net income for the year ended June 30, 2001	–	–	–	–	33,571,284	–	–	33,571,284
Foreign currency translation adjustments	–	–	–	(1,105,730)	–	–	–	(1,105,730)
Total comprehensive income (loss)	–	–	–	(1,105,730)	33,571,284	–	–	32,465,554
Balance at June 30, 2001	**34,013,785**	**340,138**	**121,720,289**	**(4,237,433)**	**160,033,521**	**3,639,169**	**(42,588,367)**	**235,268,148**
Shares sold pursuant to stock option and purchase plans	472,617	4,726	8,377,899	–	–	–	–	8,382,625
Net acquisition and use of treasury stock	–	–	–	–	–	(46,444)	370,377	370,377
Income tax benefit from exercise of stock options	–	–	2,766,453	–	–	–	–	2,766,453
Stock issued for business acquired	2,399,393	23,994	80,972,382	–	–	–	–	80,996,376
Comprehensive income:								
Net income for the year ended June 30, 2002	–	–	–	–	38,416,868	–	–	38,416,868
Foreign currency translation adjustments	–	–	–	1,519,220	–	–	–	1,519,220
Total comprehensive income	–	–	–	1,519,220	38,416,868	–	–	39,936,088
Balance at June 30, 2002	**36,885,795**	**368,858**	**213,837,023**	**(2,718,213)**	**198,450,389**	**3,592,725**	**(42,217,990)**	**367,720,067**
Shares sold pursuant to stock option and purchase plans	619,905	6,199	9,883,283	–	–	(44,246)	353,595	10,243,077
Income tax benefit from exercise of stock options	–	–	3,164,375	–	–	–	–	3,164,375
Comprehensive income (loss):								
Net income for the year ended June 30, 2003	–	–	–	–	46,581,489	–	–	46,581,489
Foreign currency translation adjustments	–	–	–	(839,689)	–	–	–	(839,689)
Total comprehensive income (loss)	–	–	–	(839,689)	46,581,489	–	–	45,741,800
Balance at June 30, 2003	**37,505,700**	**$375,057**	**$226,884,681**	**$(3,557,902)**	**$245,031,878**	**3,548,479**	**$(41,864,395)**	**$426,869,319**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Year Ended June 30	2003	2002	2001
Operating Activities			
Net income	$ 46,581,489	$ 38,416,868	$ 33,571,284
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	39,268,196	28,578,753	23,166,376
Amortization	7,684,000	5,653,328	5,171,364
Income tax benefit from exercise of stock options	3,164,375	2,766,453	3,147,495
Provision for asset write-offs	–	2,005,722	–
Gain on sale of property, plant and equipment	–	–	(2,302,000)
Provision for bad debts	4,626,000	3,275,000	2,000,000
Provision (benefit) for deferred income taxes	(1,216,000)	3,251,495	2,949,095
Changes in operating assets and liabilities:			
Accounts receivable	(11,471,926)	(7,905,452)	(3,344,649)
Inventories and other current assets	3,271,232	9,052,239	(5,742,168)
Accounts payable and other current liabilities	31,662,346	5,728,845	(4,448,085)
Other assets and liabilities	723,744	(3,339,608)	(1,944,496)
Net Cash Provided By Operating Activities	**124,293,456**	**87,483,643**	**52,224,216**
Investing Activities			
Purchase of property, plant and equipment	(42,075,069)	(39,829,553)	(28,236,464)
Proceeds from sale of property, plant and equipment	3,835,000	–	1,425,000
Acquisition of intangible assets	(2,120,380)	–	–
Acquisition of business, net of cash acquired	(7,083,607)	(4,726,200)	(787,580)
Net Cash Used By Investing Activities	**(47,444,056)**	**(44,555,753)**	**(27,599,044)**
Financing Activities			
Proceeds from long-term obligations	–	4,531,085	–
Payment on long-term obligations	(53,527,047)	(21,198,203)	(25,447,952)
Issuance of common stock	10,243,077	8,753,002	8,549,206
Net Cash Used By Financing Activities	**(43,283,970)**	**(7,914,116)**	**(16,898,746)**
Increase in Cash and Cash Equivalents	**33,565,430**	**35,013,774**	**7,726,426**
Cash and cash equivalents at beginning of period	**62,334,684**	**27,320,910**	**19,594,484**
Cash and Cash Equivalents at End of Period	**$ 95,900,114**	**$ 62,334,684**	**$ 27,320,910**

See notes to consolidated financial statements.

Note A: Significant Accounting Policies

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

Cash and Cash Equivalents: The Company considers all highly liquid investments with maturities of 30 days or less when purchased to be cash and cash equivalents. Cash and cash equivalents are stated at cost, which approximates market.

Inventories: Inventories are valued at the lower of cost (determined on a first-in, first-out moving average basis) 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 range from two to five years for production and office equipment. Leasehold improvements are depreciated over their lease terms, or useful lives if shorter. Amortization of assets under capital leases is included in depreciation expense. Maintenance and repairs are charged to expense as incurred.

Capitalized Software Production Costs: Software development costs have been capitalized when technological feasibility was established and are being amortized to the cost of goods sold over the estimated economic lives (generally three to seven years) of the products that include such software. Total net capitalized software production costs were $8,810,000 and $6,736,000 at June 30, 2003 and 2002, respectively. During the fiscal years ended June 30, 2003, 2002, and 2001, the Company recorded $1,785,000, $428,000, and $403,000, respectively, of amortization expense related to capitalized software production costs.

Goodwill and Intangible Assets: Goodwill is the cost in excess of the fair value of net assets of businesses acquired. 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 these rules, goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests in accordance with the Statements. Other intangible assets continue to be amortized over their useful lives. The Company applied the provisions of FASB No. 141 to account for business combinations consummated after July 1, 2001, including the acquisitions of Novametrix Medical Systems Inc. ("Novametrix"), Fuji RC Kabushiki Kaisha ("Fuji"), and BiliChek discussed in Note P to these Consolidated Financial Statements.

Effective July 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," under which goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests. The Company performed the required transitional impairment test with the adoption of FASB No. 142 and has determined that no impairment exists as of July 1, 2002. The Company has also performed its first annual impairment test as of December 31, 2002 and determined that no impairment exists. The Company will update this annual test as of December 31 in future years, and on an interim basis as determined necessary in accordance with FASB No. 142.

Effective July 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." FASB No. 144 superseded FASB No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," however it retained the fundamental provisions of that statement related to the recognition and measurement of the impairment of long-lived assets to be held and used. The Company evaluates the carrying value of long-lived assets, including intangible assets, to be held and used when events and circumstances indicate that the carrying amount of an asset may not be recovered. Such evaluation considers projected future operating results, trends and other circumstances. If factors indicated 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 long-lived asset in measuring whether the asset is recoverable. If such an analysis indicated that impairment had occurred, the Company would adjust the book value of the long-lived asset to fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Product Warranties: Estimated future warranty costs related to certain products are charged to operations in the period in which the related revenue is recognized.

Comprehensive Income: Comprehensive income consists of net income and foreign currency translation adjustments and is presented in the Consolidated Statements of Shareholders' Equity. The Company does not provide for U.S. income taxes on foreign currency translation adjustments since it does not provide for such taxes on the undistributed earnings of foreign subsidiaries.

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, denominated in other than the functional currency of the entity, 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 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.

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 ratably over the period the product is rented or service is performed.

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

Advertising Costs: Advertising costs are expensed during the period in which they are incurred. Total advertising expenses for the fiscal years ended June 30, 2003, 2002, and 2001 were $1,516,000, $965,000, and $805,000, respectively.

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.

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, 2002 and 2001 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, Hong Kong, Japan, Germany, and France.

Note C: Accounts Receivable

Trade accounts receivable in the Consolidated Balance Sheets is net of allowances for doubtful accounts of $12,168,000 as of June 30, 2003 and $20,046,000 as of June 30, 2002. Previously reserved accounts receivable in the amount of $12,504,000 were written off during the year ended June 30, 2003.

Note D: Inventories

Inventories consisted of the following:

June 30	**2003**	2002
Raw materials	$ 18,091,000	$ 24,015,000
Work-in-process	8,727,000	6,555,000
Finished goods	57,168,000	56,062,000
	$ 83,986,000	**$ 86,632,000**

Note E: Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the year ended June 30, 2003 were as follows:

Balance at June 30, 2002	$ 103,861,000
Goodwill on businesses acquired	4,798,000
Additional purchase price to former owner of business acquired (final installment)	250,000
Balance at June 30, 2003	**$ 108,909,000**

Net income and earnings per share excluding goodwill amortization expense are as follows:

Year Ended June 30	**2003**	2002	2001
Net income as reported	$ 46,581,000	$ 38,417,000	$ 33,571,000
Goodwill amortization expense (net of tax)	–	3,302,000	3,302,000
Net income excluding goodwill amortization expense	**$ 46,581,000**	**$ 41,719,000**	**$ 36,873,000**
Basic earnings per share:			
Net income as reported	$ 1.39	$ 1.24	$ 1.12
Goodwill amortization expense (net of tax)	–	0.11	0.11
Basic earnings per share excluding goodwill amortization expense	**$ 1.39**	**$ 1.35**	**$ 1.23**
Diluted earnings per share:			
Net income as reported	$ 1.36	$ 1.20	$ 1.09
Goodwill amortization expense (net of tax)	–	0.10	0.11
Diluted earnings per share excluding goodwill amortization expense	**$ 1.36**	**$ 1.30**	**$ 1.20**

The Company's intangible assets are comprised of product-related intellectual property acquired from third parties, the appraised fair market values of product-related intellectual property and employee contracts obtained through business acquisitions (including the acquisitions disclosed in Note P), and patent registration costs. Intangible assets at June 30 are summarized below, net of accumulated amortization:

June 30	**2003**	2002
Product-related intellectual property	$ 26,143,000	$ 26,876,000
Patent registration costs	1,827,000	1,447,000
Employee contracts	304,000	309,000
Total intangible assets	**$ 28,274,000**	**$ 28,632,000**

Intangible asset amortization is computed using the straight-line method based upon the estimated useful lives of the respective assets, which range from one to sixteen years.

Intangible asset amortization expense was $5,899,000, $2,716,000, and $1,244,000 during the years ended June 30, 2003, 2002, and 2001, respectively. The estimated aggregate intangible asset amortization expenses for the next five years are as follows:

2004	$ 3,971,000
2005	3,830,000
2006	3,585,000
2007	3,104,000
2008	2,016,000

Note F: Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities at June 30 consist of the following:

June 30	2003	2002
Promotional Programs	$ 5,589,000	$ 3,981,000
Product Warranties	4,848,000	4,585,000
Restructuring and Acquisition-Related	9,997,000	3,187,000
Recourse Obligations	1,049,000	11,826,000
Deferred Service Revenues	3,097,000	1,735,000
Compensation and Related	22,229,000	13,827,000
Taxes	12,545,000	3,567,000
Other	9,035,000	3,712,000
Total	**$ 68,389,000**	**$ 46,420,000**

Generally, the Company's standard product warranties are for a one- or two-year period (based on the specific product sold and country in which the Company does business) that covers both parts and labor. The Company provides for the estimated cost of product warranties at the time revenue is recognized. The Company's product warranty liability reflects management's best estimate of probable liability under its product warranties. Management estimates the liability based on the Company's stated warranty policies, which project the estimated warranty obligation on a product-by-product basis based on the historical frequency of claims, the cost to replace or repair its products under warranty, and the number of products under warranty based on the warranty terms and historical units shipped. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. The Company also engages in the sale of extended warranties for which revenue is deferred and recognized over the warranty terms, which are generally between two and eight years. Changes in the liability for product warranty and deferred service revenues associated with these service programs for the year ended June 30, 2003 are as follows:

Product Warranties	
Balance as of June 30, 2002	$ 4,585,000
Warranty accruals during the year	4,092,000
Service costs incurred during the year	(3,829,000)
Balance at June 30, 2003	**$ 4,848,000**

Deferred Service Revenues	
Balance as of June 30, 2002	$ 1,735,000
Revenues deferred during the year	2,121,000
Amounts recorded as revenue during the year	(759,000)
Balance at June 30, 2003	**$ 3,097,000**

Note G: Long-Term Obligations

Long-term obligations consist of the following:

June 30	2003	2002
Revolving Credit Agreement, due in August 2005 including interest at a floating rate (2.09% at June 30, 2003)	$ 10,000,000	$ 62,900,000
Bank Debt with varying maturities (final maturity in May 2007) including interest rates ranging from 0.8% to 2.2%	2,582,000	8,676,000
Capital Lease Obligations, payable in monthly installments with varying completion dates through April 2008 including interest rates ranging from 2.1% to 3.5%	20,833,000	14,625,000
Other	1,406,000	2,147,000
	34,821,000	88,348,000
Less current portion	18,308,000	28,846,000
	$ 16,513,000	**$ 59,502,000**

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 through August 2005, replacing a $125,000,000 Commercial Bank Credit Agreement that had similar terms. The new Revolving Credit Agreement is unsecured and contains certain financial covenants with which the Company must comply, including those relating to current ratio, ratio of total liabilities to tangible net worth, minimum tangible net worth, leverage, and interest coverage (as these terms are defined in the Revolving Credit Agreement). The Company is currently in compliance with these covenants. The interest rate on the revolving credit facility is based on a spread over the London Interbank Borrowing Rate (“LIBOR”). The Commercial Bank Revolving Credit Agreement includes a commitment fee, currently equal to 0.20%, on the unused portion of the facility. In August 2003, the Company paid the remaining $10,000,000 of borrowings that were outstanding under the Revolving Credit Agreement. This amount is classified with the current portion of long-term obligations in the Consolidated Balance Sheet as of June 30, 2003.

The Capital Lease Obligations are primarily for equipment rented to outside customers by the Company’s Fuji subsidiary. Other long-term obligations in the above table include 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.

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

Maturities of Long-Term Debt	
2004	$ 18,308,000
2005	5,853,000
2006	5,773,000
2007	3,771,000
2008	937,000
Thereafter	179,000
Total	**$ 34,821,000**

Interest paid was $2,607,000, $2,983,000, and $7,870,000 for the years ended June 30, 2003, 2002, and 2001, respectively.

Note H: 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, 2003 and 2002.

Note I: 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. Certain of these leases contain renewal options and rent escalation clauses.

The minimum rentals due under noncancelable leases with recurring terms of one year or more as of June 30, 2003 are as follows:

Year Ended June 30	Amount
2004	$ 7,263,000
2005	5,842,000
2006	4,308,000
2007	3,657,000
2008	3,223,000
Thereafter	7,063,000
Total	**$ 31,356,000**

Total rent expense for the years ended June 30, 2003, 2002, and 2001, was $8,320,000, $5,255,000, and $4,605,000, respectively.

Note J: Contingencies

Litigation: As previously disclosed, ResMed Corp., ResMed, Inc., and ResMed Ltd. (collectively, "ResMed") filed an action in Federal District Court against the Company on October 11, 2002 alleging that its manufacture and sale of certain nasal masks infringe seven U.S. patents (the "ResMed Patents"). The complaint also alleged a number of related causes of action. In its complaint, ResMed sought injunctive relief, actual and punitive damages, and an award of three times actual damages because of the Company's alleged willful infringement of the ResMed Patents. In its answer to ResMed's complaint, the Company denied, in all material respects, the allegations of the complaint.

On October 15, 2002, the Company filed its own Federal District Court action against ResMed Ltd. seeking a declaratory judgment that the seven ResMed Patents are invalid and/or unenforceable, and that the Company does not infringe the same. The declaratory judgment action also sought attorneys' fees as well as relief as to the remaining allegations in the ResMed complaint.

The Company was also party to actions filed in a Federal District Court in January 1995 and June 1996 in which ResMed alleged that the Company's manufacture and sale in the United States of certain products infringes four of ResMed's patents. In its response to these actions, the Company denied the allegations and had 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 were consolidated. The Court granted the Company's various motions for summary judgment and held that the Company does not infringe any of ResMed's four patents at issue.

Subsequent to June 30, 2003, the Company and ResMed reached a settlement on all of the aforementioned litigation. The settlement is not material to the Company's results of operations, financial condition, or cash flows.

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.

Contingent Obligations Under Recourse Provisions: In connection with customer leasing programs, the Company uses independent leasing companies to provide financing to certain customers for the purchase of the Company's products. 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 $12,147,000 at June 30, 2003 as compared to $18,428,000 at June 30, 2002. Approximately 8% of the Company's net sales were made under these financing arrangements during the year ended June 30, 2003, of which a portion was made with recourse.

The remainder of these installment receivables (consisting of installment receivables acquired as part of the Novametrix acquisition) do not meet the criteria of FASB No. 140 and therefore are recorded as collateralized borrowing arrangements. Accordingly, at June 30, 2003 and June 30, 2002, the Company has included $1,049,000 and $11,826,000, respectively, of receivables sold with recourse in prepaid expenses and other current assets, and has recorded offsetting amounts at those dates in accrued expenses and other current liabilities. Effective March 31, 2003, the Company entered into an agreement with the third party financing company that is counterparty to these receivables. The terms of the agreement place a cap on the Company's recourse obligation at $1,049,000. The Company is required to place this amount in escrow, which will be drawn to fund delinquent receivables that the Company is required to repurchase, up to the cap amount. Any amounts remaining in escrow when the collateralized leases are fully paid will be returned to the Company, including interest.

Note K: Income Taxes

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

Year Ended June 30	2003	2002	2001
United States	$ 53,223,000	$ 55,870,000	$ 56,058,000
Foreign	21,667,000	8,166,000	(150,000)
Total	**$ 74,890,000**	**$ 64,036,000**	**$ 55,908,000**

Income taxes (benefit) consisted of:

Year Ended June 30	2003	2002	2001
Current:			
Federal	$ 19,683,000	$ 16,874,000	$ 17,157,000
Foreign	6,163,000	1,617,000	(596,000)
State	3,678,000	3,876,000	2,826,000
Tax benefit from exercise of stock options	(3,164,000)	(2,766,000)	(3,147,000)
	26,360,000	**19,601,000**	**16,240,000**
Deferred:			
Federal	(851,000)	2,922,000	2,581,000
State	(365,000)	330,000	369,000
	(1,216,000)	**3,252,000**	**2,950,000**
Credit to additional paid-in capital for tax benefit from stock option exercises	**3,164,000**	**2,766,000**	**3,147,000**
Total Income Taxes	**$ 28,308,000**	**$ 25,619,000**	**$ 22,337,000**

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	2003	2002	2001
Statutory federal income tax rate	35%	35%	35%
Increases (decreases):			
State taxes, net of federal benefit	3	4	4
Foreign taxes	(2)	(2)	0
Tax credits	(2)	(1)	(1)
Non-deductible expenses	3	3	1
Other items, net	1	1	1
Effective Income Tax Rate	**38%**	**40%**	**40%**

Deferred income tax assets consist of the following:

June 30	2003	2002
Allowance for bad debts	$ 4,907,000	$ 6,887,000
Depreciation and amortization	(386,000)	(873,000)
Inventory reserves	2,612,000	2,299,000
Inter-company profit in inventories	3,398,000	552,000
Product warranty reserves	2,629,000	1,935,000
Restructuring reserves	4,654,000	1,097,000
Net operating loss carry-forward, limited by Section 382	713,000	1,678,000
Business credits carry-forward limited by Section 383	712,000	712,000
Foreign net operating loss carry-forward	920,000	1,720,000
Other	3,953,000	3,183,000
Total	**$ 24,112,000**	**$ 19,190,000**

Undistributed earnings of the foreign subsidiaries on which no U.S. income tax has been provided amounted to $28,003,000 at June 30, 2003.

Income taxes paid were $13,710,000, $19,170,000, and $19,533,000 for the years ended June 30, 2003, 2002, and 2001, respectively.

On April 12, 2002, the Company acquired Novametrix Medical Systems Inc., which had a federal and state net operating loss for the period ending April 12, 2002 of approximately $5,800,000. As of June 30, 2003, $1,700,000 remains of this net operating loss, which expires on a carry-forward basis in 2022. Additionally, Novametrix 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 carry-forwards 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 carry-forwards prior to their expiration.

The change in deferred income tax assets between June 30, 2002 and June 30, 2003 includes $3,706,000 resulting from acquisitions.

Note L: Stock Option and Purchase Plans

The Company has in place 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 1992 Plan, 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 1992 Plan had a total of 3,000,000 shares approved for issuance, including 1,000,000 shares 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 1992 Plan expired on September 28, 2002, and no new options will be granted under the 1992 Plan in the future. 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"), from which all 300,000 options approved for issuance 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 (increased to 6,500 shares by an amendment to the 2000 Plan on May 23, 2003) 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.

Each of the Company's equity compensation plans was approved by security holders.

Healthdyne had in place, prior to its merger with the Company, four stock option plans: the 1993 Stock Option Plan; the 1993 Non-Employee 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 Respironics 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 Respironics stock option plans.

Novametrix 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. Novametrix 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 Novametrix options were converted into a total of 416,125 options to purchase Respironics common stock. Under the terms of the Novametrix 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 Respironics stock option plans.

The following table summarizes stock option activity:

Year Ended June 30	2003	2002	2001
Option Shares			
Outstanding at beginning of period	2,764,000	2,174,000	2,584,000
Granted	711,000	1,181,000	604,000
Exercised	(654,000)	(486,000)	(834,000)
Canceled	(121,000)	(105,000)	(180,000)
Outstanding at end of period	2,700,000	2,764,000	2,174,000
Weighted-average exercise price	**$ 24.02**	**$ 19.69**	**$ 13.64**
Exercisable at end of period	**1,231,000**	**1,105,000**	**648,000**
Shares available for future grant	**830,000**	**1,649,000**	**2,309,000**
Price range of granted options	**$29.32–$36.26**	**$10.33–$33.75**	**$16.13–$29.93**

The range of grant and exercise prices above for the 2002 fiscal year includes the post-conversion option prices for options granted by Novametrix prior to its merger with the Company.

The following table summarizes information about stock options outstanding at June 30, 2003:

Range of Exercise Prices	Number of Options Outstanding	Weighted-Average Remaining Contractual Life
$ 5–$10	555,000	6.14 years
$11–$15	109,000	4.85 years
$16–$20	462,000	6.57 years
$21–$25	130,000	4.98 years
$26–$30	98,000	6.45 years
$31–$37	1,346,000	8.67 years

The per share weighted-average fair value of stock options granted during 2003, 2002, and 2001, was $14.25, $17.35, and $10.39, respectively, on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2003	2002	2001
Expected volatility	45.2%	53.0%	57.1%
Expected dividend yield	none	none	none
Risk-free interest rate	2.3%	4.1%	5.0%
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:

Year Ended June 30	2003	2002	2001
Net income, as reported	$ 46,581,000	$ 38,417,000	$ 33,571,000
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	–	–	–
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(5,301,000)	(5,106,000)	(3,369,000)
Pro forma net income	**$ 41,280,000**	**$ 33,311,000**	**$ 30,202,000**
Earnings per share:			
Basic — as reported	**$ 1.39**	**$ 1.24**	**$ 1.12**
Basic — pro forma	**$ 1.23**	**$ 1.07**	**$ 1.01**
Diluted — as reported	**$ 1.36**	**$ 1.20**	**$ 1.09**
Diluted — pro forma	**$ 1.21**	**$ 1.04**	**$ 0.98**

Novametrix 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 Novametrix warrants were converted into a total of 71,956 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. As of June 30, 2003, 69,415 warrants remain outstanding, 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 employees can purchase currently under the 2002 Plan, and historically could purchase under the 1997 Plan, is equal to 20% of their 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 "acquirer") 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 acquirer) to purchase shares of the Company's common stock having a value equal to two times the specified exercise price.

Note M: 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 used primarily for the treatment of patients suffering from respiratory disorders. Sales by product within this segment are as follows:

Year Ended June 30	2003	2002	2001
Net Sales			
Domestic Homecare products	$ 388,516,000	$ 339,339,000	$ 292,164,000
Domestic Hospital products	79,427,000	57,468,000	44,176,000
International products	161,874,000	98,112,000	86,098,000
Net Sales	**$ 629,817,000**	**$ 494,919,000**	**$ 422,438,000**

The Company is a Delaware corporation, with its corporate offices located in Murrysville, Pennsylvania. Its principal manufacturing operations are currently located in Pennsylvania, California, Georgia, Connecticut, and China. Other major distribution and sales sites are located throughout the United States, Germany, France, Hong Kong, and Japan.

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

Year Ended June 30	2003	2002	2001
Net Sales			
Domestic	$ 467,943,000	$ 396,807,000	$ 336,340,000
International:			
Europe, Africa, and Middle East	74,441,000	61,193,000	57,902,000
Latin America	9,272,000	8,005,000	4,681,000
Far East/Asia Pacific	78,161,000	28,914,000	23,515,000
Net Sales	**$ 629,817,000**	**$ 494,919,000**	**$ 422,438,000**

June 30	2003	2002
Long-Lived Assets		
United States	$ 111,906,000	$ 111,997,000
International:		
Europe	710,000	506,000
Far East/Asia Pacific	21,005,000	21,234,000
Total Long-Lived Assets	**$ 133,621,000**	**$ 133,737,000**

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. The Company generally does not require collateral for the extension of credit. During the fiscal years ended June 30, 2003 and 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.

Note N: Retirement Plans

The Company has a Retirement Savings Plan ("the Plan") that is available to all U.S. employees. Prior to July 1, 2002, employees could contribute up to 15% (to a defined maximum) of their compensation to the Plan. Effective July 1, 2002, this contribution rate was increased 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 to the Plan. Total Company contributions to the plan were $2,204,000, $1,774,000, and $1,307,000 for the years ended June 30, 2003, 2002, and 2001, respectively.

Note O: Restructuring

On October 23, 2002, the Company announced the relocation of several of its smaller product lines and related support functions from the Company's Kennesaw, Georgia manufacturing facility to its Murrysville, Pennsylvania location. This relocation enabled the Company to standardize its manufacturing support, engineering, and marketing functions as well as improve the overall efficiency of its manufacturing operations in Kennesaw. Approximately 130 employees were involuntarily terminated and 10 relocated as a result of the restructuring actions, primarily from manufacturing and manufacturing support, engineering, purchasing, and marketing. In conjunction with these actions, the Company incurred $9,531,000 of restructuring expenses during the year ended June 30, 2003, related primarily to involuntary termination benefits accruing to employees affected by the restructuring plan, employee transition and relocation benefits that became payable during the year, idle facility rent obligations that became accruable on the date of the Company's commitment to the restructuring plan, and certain asset write-offs related to products that were discontinued as a result of the restructuring plan. The product relocation began during the quarter ended December 31, 2002, and substantially all of the restructuring actions were completed by June 30, 2003. Substantially all of the restructuring obligations will be paid by September 30, 2003, except for the idle facility costs that will be paid over the remaining term of the lease. Following is a summary of the restructuring expenses recorded during the year ended June 30, 2003, the payments and asset write-offs made against the accrued amounts, and the remaining balances as of June 30, 2003:

	Accrued Employee Costs	Accrued Facility Costs	Accrued Product and Other Asset Costs	Other Direct Costs	Total
Restructuring expenses	$ 4,371,000	$ 2,568,000	$ 1,588,000	$ 1,004,000	$ 9,531,000
Cash payments	(1,996,000)	(168,000)	–	(1,004,000)	(3,168,000)
Non-cash asset write-downs	–	–	(157,000)	–	(157,000)
Balance at June 30, 2003	**$ 2,375,000**	**$ 2,400,000**	**$ 1,431,000**	**$ –**	**$ 6,206,000**

Of the restructuring charge, $9,176,000 is included in restructuring and acquisition-related expenses, and $355,000 is included in cost of goods sold in the Consolidated Statement of Operations for the year ended June 30, 2003.

In July 1999, the Company announced a major restructuring of its U.S. operations that included facility closings and downsizing, a management realignment, and a workforce reduction associated with those changes. As the restructuring actions were completed 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.

Note P: Acquisitions

Novametrix Medical Systems Inc.: On April 12, 2002, the Company completed its previously announced acquisition of 100% of the outstanding common stock of Novametrix Medical Systems Inc. ("Novametrix"), a leading cardio-respiratory monitoring company that develops, manufactures, and markets proprietary state-of-the-art noninvasive monitors, sensors, and disposable accessories. The acquisition of Novametrix was consummated pursuant to an Agreement and Plan of Merger ("Merger") dated as of December 17, 2001, pursuant to which Respironics Holdings, Inc., a wholly owned subsidiary of the Company, was merged with and into Novametrix. The Company made this acquisition for various reasons, including: (a) the Novametrix monitoring products complement the Company's therapeutic products used in the hospital environment, (b) the Novametrix developmental care products complement the Company's infant management products and programs, (c) the Novametrix 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 Novametrix's business functions and processes. The results of operations of Novametrix are included in the Company's Consolidated Statements of Operations beginning on the acquisition date, April 12, 2002.

Upon consummation of the Merger, 2,400,000 shares of the Company's common stock were issued to the former stockholders of Novametrix, reflecting an exchange ratio of .2541 shares of the Company's common stock for each share of Novametrix 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. Novametrix stockholders received the Company's stock in an amount equal to $8.00 per Novametrix share based upon the weighted-average selling price. In addition, 509,000 shares of the Company's common stock were reserved for issuance upon exercise of options and warrants issued in exchange for Novametrix options and warrants that were not exercised prior to the consummation of the Merger. As of the close of trading on April 12, 2002, Novametrix 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 $80,996,000 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 $4,153,000 in transaction costs directly related to the acquisition (consisting primarily of investment banking and other professional fees), bringing the total acquisition cost to approximately $85,149,000.

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 is final as of June 30, 2003.

At April 12	2002
Current assets, primarily consisting of accounts receivable and inventories	$ 24,564,000
Property, plant and equipment	2,571,000
Intangible assets	17,478,000
Other non-current assets	1,355,000
Goodwill	51,680,000
Total assets acquired	**$ 97,648,000**
Current liabilities, primarily consisting of accounts payable, accrued expenses, and current portion of debt	12,499,000
Net assets acquired	**$ 85,149,000**

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

Product-related intellectual property, primarily patents	$ 17,101,000
Employee contracts	377,000
Total intangible assets	**$ 17,478,000**

The weighted-average amortization period is approximately 14 years for the product-related intangible assets, approximately one year for the employee contracts, and approximately 14 years in total.

Approximately $3,900,000 of goodwill is expected to be deductible for tax purposes.

In fiscal year 2002 after consummating the acquisition, the Company began to integrate Novametrix's products and programs, employees, systems, and processes with its own. In connection with these integration actions, the Company incurred severance and related costs of $1,647,000 for the separation of approximately 50 employees, of which $1,336,000 represented costs of the acquisition and were included in the purchase price allocation for Novametrix, and $311,000 was recorded as restructuring and acquisition-related expenses during the fourth quarter of fiscal year 2002. Restructuring and acquisition-related expenses incurred during the fourth quarter of fiscal year 2002 also included $1,977,000 related to eliminating and centralizing certain corporate services functions, and were primarily comprised of employee transition payments and consulting fees.

In fiscal year 2003, the Company incurred additional restructuring and acquisition-related expenses of $6,205,000 (excluding the impact of the facility changes described below), primarily related to the elimination and centralization of certain corporate services functions and certain compensation related payments associated with the acquisition and related integration activities. These costs are classified in restructuring and acquisition-related expenses in the Consolidated Statement of Operations for the year ended June 30, 2003.

On April 11, 2003, the Company announced that it would be consolidating product manufacturing activities and other support functions from the Company's Wallingford, Connecticut plant to its Carlsbad, California location. This action represents the final step in the Company's integration of Novametrix. The relocation will allow the Company to standardize its manufacturing support and engineering functions at the Carlsbad plant, will enable the Wallingford facility to concentrate on new product research and development, and will improve the overall efficiency of the Company. Approximately 80 employees were involuntarily terminated as a result of the restructuring actions, primarily from manufacturing and manufacturing support, purchasing, and certain administrative support functions. The relocation activities are expected to result in total restructuring and acquisition-related expenses of approximately $9,000,000 on a pre-tax basis to be incurred over the one-year period that the relocation takes place, of which $1,441,000 were incurred and recorded as restructuring and acquisition-related expenses during the fourth quarter of fiscal year 2003. These costs relate primarily to employee retention and transition benefits and other costs associated with the relocation and transition process. Additionally, approximately $1,911,000 of costs associated with employees' involuntary termination and relocation benefits and idle facility rent obligations was accrued as of April 11, 2003, the date the Company finalized the restructuring plan. These $1,911,000 of costs represent costs of the Novametrix acquisition and were recorded as additional goodwill in the Consolidated Balance Sheet as of June 30, 2003.

Following is a summary of the restructuring and acquisition-related expenses related to the Novametrix acquisition that were recorded during the year ended June 30, 2003, the payments made against the obligations, and the remaining obligations as of June 30, 2003:

	Accrued Employee Costs	Accrued Facility Costs	Other Direct Costs	Total
Restructuring and acquisition-related expenses	$ 311,000	$ –	$ 1,977,000	$ 2,288,000
Costs of the acquired business	1,336,000	–	–	1,336,000
Cash payments	(397,000)	–	(1,077,000)	(1,474,000)
Balance at June 30, 2002	**$ 1,250,000**	**$ –**	**$ 900,000**	**$ 2,150,000**
Restructuring and acquisition-related expenses	2,473,000	–	5,173,000	7,646,000
Costs of the acquired business	836,000	1,075,000	–	1,911,000
Cash payments	(2,725,000)	–	(6,073,000)	(8,798,000)
Balance at June 30, 2003	**$ 1,834,000**	**$ 1,075,000**	**$ –**	**$ 2,909,000**

Substantially all of the restructuring obligations will be paid by September 30, 2004.

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 Novametrix 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. This amount is included in restructuring and acquisition-related expenses in the Consolidated Statement of Operations for the year ended June 30, 2002.

The following unaudited pro forma summary presents the Company's results of operations as if the acquisition had occurred at the beginning of the period indicated and does not purport to be indicative of what would have occurred had the acquisition been made as of that date, or of results that may occur in the future. These pro forma results of operations do not reflect the positive impact of cost reductions and other synergies that were realized as a result of the merger, nor do they include non-recurring restructuring and acquisition-related expenses incurred following the merger.

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

Novametrix 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 Novametrix's results of operations effective April 12, 2002) was combined with Novametrix'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 Novametrix'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 Novametrix stockholders as part of the acquisition.

Fuji RC Kabushiki Kaisha: In May 2002, the Company acquired a 60% controlling interest in Fuji RC Kabushiki Kaisha ("Fuji"), a leading provider of homecare 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 four annual installments of $1,433,000, the last of which is due on December 31, 2006. The net present value of the Company's fixed-price forward contract, $5,455,000, is accounted for as a financing of the Company's purchase of the minority interest and is classified with other non-current liabilities in the Consolidated Balance Sheets. Including the fixed-price forward contract and costs directly associated with the acquisition, the base cash purchase price for all of the outstanding shares is approximately $12,662,000 with provisions for additional payments to one of the shareholders of Fuji to be made based on the operating performance of Fuji over the next four years, payable on December 31, 2006. These additional payments are being accrued as compensation over the four-year period as they are earned by the shareholder during his post-acquisition employment period. As of June 30, 2003, $2,036,000 is accrued in the Consolidated Balance Sheet and classified with other non-current liabilities pertaining to this obligation. 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.

BiliChek: On March 6, 2003, the Company acquired certain assets related to the BiliChek Non-invasive Bilirubin Analyzer product line from SpectRx, Inc. for a base purchase price of $4,000,000 and up to $7,250,000 of additional future payments based on the achievement of various performance milestones following the acquisition. The acquisition expands the Company's involvement with the acquired product line from U.S. marketing and sales under a prior exclusive license agreement, to worldwide marketing and sales and also to the future development and manufacturing of the product. The acquisition did not materially impact the Company's net sales or net income during the year ended June 30, 2003. In connection with the acquisition, the Company recorded $3,365,000 of intangible assets, representing the fair market value of acquired product-related intellectual property and employee contracts. The weighted-average amortization period for these intangible assets is approximately 14 years.

Note Q: Earnings Per Share

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

Year Ended June 30	2003	2002	2001
Numerator:			
Net income	$ 46,581,000	$ 38,417,000	$ 33,571,000
Denominator:			
Denominator for basic earnings per share — weighted-average shares	33,585,000	31,079,000	29,962,000
Effect of dilutive securities — stock options and warrants	759,000	929,000	924,000
Denominator for diluted earnings per share — adjusted weighted-average shares and assumed conversions	**34,344,000**	**32,008,000**	**30,886,000**
Basic Earnings Per Share	**$ 1.39**	**$ 1.24**	**$ 1.12**
Diluted Earnings Per Share	**$ 1.36**	**$ 1.20**	**$ 1.09**

Note R: Quarterly Results of Operations (Unaudited)

Following are the unaudited quarterly results of operations for the fiscal years ended June 30, 2003 and 2002:

Three Months Ended	September 30	December 31	March 31	June 30
2003				
Net Sales	$ 138,642,000	$ 151,881,000	$ 161,858,000	$ 177,436,000
Gross Profit	68,136,000	76,330,000	82,727,000	92,239,000
Restructuring and Acquisition — Related Expenses	3,165,000	7,043,000	3,182,000	4,398,000
Net Income	8,886,000	9,213,000	13,917,000	14,566,000
Basic Earnings Per Share	0.27	0.28	0.41	0.43
Diluted Earnings Per Share	0.26	0.27	0.41	0.42

Three Months Ended	September 30	December 31	March 31	June 30
2002				
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
Restructuring and Acquisition — Related Expenses and Impairment Charge	–	–	–	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

Report of Independent Auditors

Board of Directors and Shareholders
Respironics, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Respironics, Inc. and subsidiaries as of June 30, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2003. 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 as of June 30, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in Note A to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," effective July 1, 2002.

Ernst + Young LLP

Pittsburgh, Pennsylvania
July 22, 2003

Five-Year Summary

(amounts in thousands except per share data)

Year Ended June 30	2003	2002	2001	2000	1999
Per Share Data					
Net income	$ 1.36[1]	$ 1.20[2]	$ 1.09	$ 0.19[3]	$ 0.72[4]
Book value at year end	12.57	11.04	7.75	6.49	5.89
Results of Operations					
Net sales	$ 629,817	$ 494,919	$ 422,438	$ 368,184	$ 357,571
Cost of goods sold	310,385	260,795[5]	224,087	205,230[5]	186,486
Income before income taxes	74,890[1]	64,036[2]	55,908	8,576[3]	38,456[4]
Net income	46,581[1]	38,417[2]	33,571	5,752[3]	23,061[4]
Financial Position at Year End					
Working capital	$ 212,787	$ 198,966	$ 171,985	$ 155,095	$ 155,336
Property, plant, and equipment (net)	98,680	99,935	69,147	66,785	61,230
Total assets	582,196	550,911	367,295	352,577	341,179
Long-term obligations	16,513	59,502	80,055	108,095	99,374
Shareholders' equity	426,869	367,720	235,268	191,106	194,521
Other Data					
Capital expenditures	42,075	39,830	28,236	27,304	25,629
Depreciation and amortization	46,952	34,232	28,338	26,706	19,231
Number of employees at year end	2,698	2,589	2,056	1,940	1,988
Diluted shares outstanding	34,344	32,008	30,886	30,004	31,956
Selected Financial Ratios					
Gross profit as a percent of sales	51%	47%[5]	47%	44%[5]	48%
Income before income taxes as a percent of sales	12%[1]	13%[2]	13%	2%[3]	11%[4]
Effective income tax rate	38%	40%	40%	33%[6]	40%
Net income as a percent of sales	7%[1]	8%[2]	8%	2%[3]	6%[4]
Return on average equity	12%[1]	13%[2]	16%	3%[3]	12%[4]
Debt to equity ratio	4%	16%	34%	57%	51%
Current ratio	2.67x	2.79x	4.31x	3.91x	4.18x

[1] *Includes the impact of restructuring and acquisition-related expenses related to the integration of Novametrix Medical Systems Inc. ("Novametrix") and restructuring of operations at the Kennesaw, Georgia and Wallingford, Connecticut manufacturing facilities, and other acquisition-related costs. These costs reduced pre-tax income by $18,144, and net income by $11,286 ($0.32 per share) in fiscal year 2003.*

[2] *Includes the impact of a non-recurring purchase accounting adjustment related to reversing acquisition date inventory fair market value adjustments as inventory was sold subsequent to the acquisition of Novametrix, restructuring and acquisition-related expenses related to the integration of Novametrix, and an asset impairment charge. These costs reduced pre-tax income by $5,947, and net income by $3,853 ($0.12 per share) in fiscal year 2002.*

[3] *Includes the impact of restructuring expenses related to the Company's July 1999 restructuring, a specific addition to the allowance for doubtful accounts due to a customer bankruptcy, and a one-time reduction in income tax expense. These costs reduced pre-tax income by $33,696, and net income by $19,611 ($0.66 per share) in fiscal year 2000.*

[4] *Includes the impact of a specific addition to the allowance for doubtful accounts and restructuring expenses. These costs reduced pre-tax income by $7,415, and net income by $4,449 ($0.14 per share) in fiscal year 1999.*

[5] *Includes the impact of the restructuring expenses described above of $8,710 in fiscal year 2000 and the non-recurring purchase accounting adjustment described above of $1,653 in fiscal year 2002.*

[6] *Includes the impact of the one-time reduction in income tax expense described above.*

Shareholder Information

Corporate Headquarters

1010 Murry Ridge Lane
Murrysville, PA 15668-8525

Annual Meeting of Shareholders

The annual meeting of shareholders will be held at Respironics' Corporate Services facility at 1010 Murry Ridge Lane, Murrysville, Pennsylvania on November 18, 2003 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 3, 2003, there were 2,900 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	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2003				
High	$35.21	$34.07	$34.72	$40.00
Low	$26.50	$28.76	$28.73	$34.31
2002				
High	$37.00	$37.05	$37.88	$36.36
Low	$27.75	$30.54	$23.79	$30.81

Form 10-K

Copies of the Respironics, 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, Respironics 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 and Corporate Controller, Respironics Inc., 1010 Murry Ridge Lane, Murrysville, PA 15668-8525.

Market Makers

Adams, Harkness & Hill, Inc.
Advest, Inc.
Alternate Display Facility
Archipelago, L.L.C.
Bank of America Securities
BrokerageAmerica, LLC
Cantor, Fitzgerald & Co.
Cincinnati Stock Exchange
Credit Suisse First Boston
Deutsche Bank Securities, Inc.
First Albany Corporation
First Security Van Kasper
First Union Securities, Inc.
Garban Giorgio Equity Trading
Goldman, Sachs & Co.
Harris Nesbitt Gerard
Jefferies & Company, Inc.
Knight Securities L.P.
Lehman Brothers Inc.
M. H. Meyerson & Co.
Merrill Lynch, Pierce, Fenner
Morgan Stanley & Co., Inc.
Parker/Hunter, Inc.
Schwab Capital Markets
SG Cowen Securities
Southwest Securities Inc.
Susquehanna Capital Group
The Robinson Humphrey Co.
Timber Hill Inc.

Research Coverage

Banc of America Securities
Deutsche Banc Alex Brown
First Albany Corporation
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LJR Great Lakes Review
Parker/Hunter Inc.
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Steven P. Fulton

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Chairman of the Board

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