

RESMED INC  
Form 10-Q  
May 03, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2011

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-15317

**ResMed Inc.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

98-0152841

(I.R.S. Employer Identification No.)

**9001 Spectrum Center Blvd.**

**San Diego, CA 92123**

**United States of America**

(Address of principal executive offices)

**(858) 836-5000**

(Registrant's telephone number, including area code)

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

At April 25, 2011, there were 152,914,937 shares of Common Stock (\$0.004 par value) outstanding. This number excludes 12,063,273 shares held by the registrant as treasury shares.

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**RESMED INC. AND SUBSIDIARIES**

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PART I FINANCIAL INFORMATION

Item 1

**Item 1. Financial Statements****RESMED INC. AND SUBSIDIARIES**

Condensed Consolidated Balance Sheets (Unaudited)

(In US\$ thousands, except share and per share data)

	March 31, 2011	June 30, 2010
<b>ASSETS</b>		
<u>Current assets</u>		
Cash and cash equivalents	\$ 671,704	\$ 488,776
Accounts receivable, net of allowance for doubtful accounts of \$9,274 and \$7,826 at March 31, 2011 and June 30, 2010, respectively	251,935	226,911
Inventories, net (note 3)	205,000	185,642
Deferred income taxes	12,220	14,112
Income taxes receivable	7,306	5,317
Prepaid expenses and other current assets	54,493	64,583
Total current assets	1,202,658	985,341
<u>Non-current assets</u>		
Property, plant and equipment, net (note 5)	447,669	387,148
Goodwill (note 6)	230,855	198,625
Other intangibles, net (note 7)	49,236	30,925
Deferred income taxes	19,999	19,042
Other assets	11,742	5,316
Total non-current assets	759,501	641,056
Total assets	\$ 1,962,159	\$ 1,626,397
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<u>Current liabilities</u>		
Accounts payable	\$ 52,370	\$ 57,535
Accrued expenses	90,353	80,883
Deferred revenue	42,133	29,507
Income taxes payable	5,783	22,656
Deferred income taxes	497	402
Current portion of long-term debt (note 8)	235	121,689
Total current liabilities	191,371	312,672
<u>Non-current liabilities</u>		
Deferred income taxes	9,376	10,793
Deferred revenue	16,588	12,755
Income taxes payable	1,434	2,641

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Non Current portion of long-term debt (note 8)	80,000	0
<b>Total non-current liabilities</b>	<b>107,398</b>	<b>26,189</b>
<b>Total liabilities</b>	<b>298,769</b>	<b>338,861</b>
<b>Commitments and contingencies (note 11)</b>		
<b>Stockholders' equity</b>		
Preferred stock, \$0.01 par value, 2,000,000 shares authorized; none issued	0	0
Common stock, \$0.004 par value; 350,000,000 shares authorized; 164,731,408 issued and 152,668,135 outstanding at March 31, 2011 and 160,567,176 issued and 151,345,408 outstanding at June 30, 2010	611	605
Additional paid-in capital	767,439	660,185
Retained earnings	1,053,390	884,876
Treasury stock, at cost, 12,063,273 shares at March 31, 2011, and 9,221,768 shares at June 30, 2010	(440,635)	(344,505)
Accumulated other comprehensive income (note 4)	282,585	86,375
<b>Total stockholders' equity</b>	<b>1,663,390</b>	<b>1,287,536</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,962,159</b>	<b>\$ 1,626,397</b>

See the accompanying notes to the unaudited condensed consolidated financial statements.

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PART I - FINANCIAL INFORMATION

Item 1

**RESMED INC. AND SUBSIDIARIES**

Condensed Consolidated Statements of Income (Unaudited)

(In US\$ thousands, except share and per share data)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
Net revenues	\$ 313,258	\$ 278,659	\$ 901,255	\$ 800,785
Cost of sales	130,755	112,076	358,800	319,819
<b>Gross profit</b>	<b>182,503</b>	<b>166,583</b>	<b>542,455</b>	<b>480,966</b>
Operating expenses:				
Selling, general and administrative	92,549	84,133	268,920	244,984
Research and development	23,319	18,279	65,032	55,252
Amortization of acquired intangible assets	2,673	1,992	7,276	5,967
Donation to Foundation	0	1,000	1,000	3,000
<b>Total operating expenses</b>	<b>118,541</b>	<b>105,404</b>	<b>342,228</b>	<b>309,203</b>
Income from operations	63,962	61,179	200,227	171,763
Other income, net:				
Interest income, net	6,663	4,092	17,765	9,383
Other, net	398	2,387	8,506	7,515
<b>Total other income, net</b>	<b>7,061</b>	<b>6,479</b>	<b>26,271</b>	<b>16,898</b>
Income before income taxes	71,023	67,658	226,498	188,661
Income taxes	17,673	18,824	57,984	51,742
<b>Net income</b>	<b>\$ 53,350</b>	<b>\$ 48,834</b>	<b>\$ 168,514</b>	<b>\$ 136,919</b>
Basic earnings per share	\$ 0.35	\$ 0.32	\$ 1.11	\$ 0.91
Diluted earnings per share (note 2-k)	\$ 0.34	\$ 0.31	\$ 1.07	\$ 0.89
Basic shares outstanding (000 s)	153,251	150,876	152,407	150,648
Diluted shares outstanding (000 s)	157,616	155,660	157,356	154,356

See the accompanying notes to the unaudited condensed consolidated financial statements.

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PART I - FINANCIAL INFORMATION

Item 1

**RESMED INC. AND SUBSIDIARIES**

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In US\$ thousands)

	Nine Months Ended March 31,	
	2011	2010
<b>Cash flows from operating activities:</b>		
Net income	\$ 168,514	\$ 136,919
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	51,108	46,090
Impairment of long-lived assets	2,257	0
Stock-based compensation costs	23,196	21,850
Provision for product warranties, net	(483)	2,241
Foreign currency revaluation	(13,392)	(8,821)
Write-down of cost-method investments	0	250
Tax benefit from stock option exercises	(11,566)	(8,142)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	(11,489)	(13,228)
Inventories, net	3,579	(34,906)
Prepaid expenses, net deferred income taxes and other current assets	12,739	(11,483)
Accounts payable, accrued expenses and other liabilities	(15,601)	(1,519)
Net cash provided by operating activities	208,862	129,251
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(49,163)	(40,533)
Patent registration costs	(4,992)	(3,478)
Proceeds from sale of maturing investment securities	3,950	1,050
Business acquisitions, net of cash acquired	(22,450)	(10,660)
Purchase of cost-method investments	(1,826)	0
Proceeds from disposal of business assets and contracts	0	284
Purchases of foreign currency options	(1,463)	(1,479)
Proceeds from exercise of foreign currency options	14,570	10,804
Net cash used in investing activities	(61,374)	(44,012)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock, net	74,362	65,351
Proceeds from borrowings, net of borrowing costs	78,695	0
Tax benefit from stock option exercises	11,566	8,142
Purchases of treasury stock	(100,895)	(76,532)
Repayment of borrowings	(123,519)	(18,438)

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Net cash (used in) financing activities	(59,791)	(21,477)
Effect of exchange rate changes on cash	95,231	41,524
Net increase in cash and cash equivalents	182,928	105,286
Cash and cash equivalents at beginning of period	488,776	415,650
Cash and cash equivalents at end of period	\$ 671,704	\$ 520,936
<b>Supplemental disclosure of cash flow information:</b>		
Income taxes paid	\$ 64,209	\$ 77,510
Interest paid	\$ 1,121	\$ 1,661
Fair value of assets acquired in acquisitions, excluding cash	\$ 18,442	\$ 7,937
Liabilities assumed	(450)	(3,909)
Goodwill on acquisition	5,758	8,715
Fair value of contingent consideration	(800)	(2,083)
Total purchase price	22,950	10,660
Less: Deposit paid in previous period	(500)	0
Cash paid for acquisition	\$ 22,450	\$ 10,660

See the accompanying notes to the unaudited condensed consolidated financial statements.



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PART I - FINANCIAL INFORMATION

Item 1

**RESMED INC. AND SUBSIDIARIES**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

**(1) Organization and Basis of Presentation**

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the U.S. Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (U.S. GAAP) for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three and nine months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending June 30, 2011.

The condensed consolidated financial statements for the three and nine months ended March 31, 2011 and 2010 are unaudited and should be read in conjunction with the consolidated financial statements and notes thereto included in our Form 10-K for the year ended June 30, 2010.

**(2) Summary of Significant Accounting Policies**

**(a) Basis of Consolidation**

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

The preparation of financial statements in conformity with U.S. GAAP requires management estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from management's estimates.

(b) Revenue Recognition

Revenue on product sales is generally recorded upon shipment, at which time title and risk of loss transfers to the customer. Revenue on product sales which require customer acceptance is not recorded until acceptance is received. Royalty revenue from license agreements is recorded when earned. Service revenue received in advance from service contracts is initially deferred and recognized ratably over the life of the service contract. Revenue received in advance from rental unit contracts is initially deferred and recognized ratably over the life of the rental contract. Freight charges billed to customers are included in revenue. All freight related expenses are charged to cost of sales.

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**RESMED INC. AND SUBSIDIARIES**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

(2) Summary of Significant Accounting Policies, Continued

(b) Revenue Recognition, Continued

Taxes assessed by government authorities that are imposed on and concurrent with revenue-producing transactions, such as sales and value added taxes, are excluded from revenue.

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

(c) Cash and Cash Equivalents

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

(d) Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments, which results in bad debt expense. We determine the adequacy of this allowance by regular evaluation of individual customer receivables, considering a customer's financial condition, credit history and current economic conditions.

(e) Inventories

Inventories are stated at the lower of cost, determined principally by the first-in, first-out method, or net realizable value. Finished goods and work-in-process inventories include material, labor and manufacturing overhead costs. We review and provide for any product obsolescence in our manufacturing and distribution operations with assessments of individual products and components (based on estimated future usage and sales) being performed throughout the year.

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**RESMED INC. AND SUBSIDIARIES**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

(2) Summary of Significant Accounting Policies, Continued

(f) Property, Plant and Equipment

Property, plant and equipment, including rental equipment are recorded at cost. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets, generally two to ten years except for buildings, which are depreciated over an estimated useful life of 40 years. Straight-line and accelerated methods of depreciation are used for tax purposes. Maintenance and repairs are charged to expense as incurred.

We capitalize interest in connection with the construction of facilities. Actual construction costs incurred relating to facilities under active development qualify for interest capitalization. Interest capitalization ceases when the construction of a facility is complete and available for use. During the three and nine months ended March 31, 2011 and 2010, there were no construction costs incurred relating to facilities that required interest to be capitalized.

(g) Research and Development

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

(h) Intangible Assets

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

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

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PART I - FINANCIAL INFORMATION

Item 1

**RESMED INC. AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements****(Unaudited)****(2) Summary of Significant Accounting Policies, Continued****(i) Goodwill**

We conducted our annual review for goodwill impairment during the final quarter of fiscal 2010. The results of the review during the final quarter of fiscal 2010 indicated that goodwill was not impaired. In conducting our review of goodwill impairment we identified reporting units, being components of our operating segment of each of the entities acquired and giving rise to the goodwill. The fair value for each reporting unit was determined based on discounted cash flows and involved a two-step process as follows:

- Step 1 - Compare the fair value for each reporting unit to its carrying value, including goodwill. For each reporting unit where the carrying value, including goodwill, exceeds the reporting unit's fair value, move on to step 2. If a reporting unit's fair value exceeds the carrying value, no further work is performed and no impairment charge is necessary.
- Step 2 - Allocate the fair value of the reporting unit to its identifiable tangible and non-goodwill intangible assets and liabilities. This will derive an implied fair value for the goodwill. Then, compare the implied fair value of the reporting unit's goodwill with the carrying amount of the reporting unit's goodwill. If the carrying amount of the reporting unit's goodwill is greater than the implied fair value of its goodwill, an impairment loss must be recognized for the excess.

**(j) Foreign Currency**

The consolidated financial statements of our non-U.S. subsidiaries, whose functional currencies are other than U.S. dollars, are translated into U.S. dollars for financial reporting purposes. Assets and liabilities of non-U.S. subsidiaries whose functional currencies are other than U.S. dollars are translated at period-end exchange rates, and revenue and expense transactions are translated at average exchange rates for the period. Cumulative translation adjustments are recognized as part of comprehensive income, as described in Note 4, and are included in accumulated other comprehensive income in the condensed consolidated balance sheet until such time as the subsidiary is sold or substantially or completely liquidated. Gains and losses on transactions denominated in other than the functional currency of the entity are reflected in the condensed consolidated financial statements.



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**RESMED INC. AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements****(Unaudited)****(2) Summary of Significant Accounting Policies, Continued****(k) Earnings Per Share**

All share and per share information has been adjusted to reflect the two-for-one stock split effected in the form of a 100% stock dividend that was declared on August 5, 2010 and distributed on August 30, 2010.

Basic earnings per share is computed by dividing the net income available to common stockholders by the weighted average number of shares of common stock outstanding. For purposes of calculating diluted earnings per share, the denominator includes both the weighted average number of shares of common stock outstanding and the number of dilutive common stock equivalents such as stock options and restricted stock units.

The weighted average number of stock options not included in the computation of diluted earnings per share was 990,000 and 1,026,000 for the three months ended March 31, 2011 and 2010, respectively, and 592,000 and 1,814,000 for the nine months ended March 31, 2011 and 2010, respectively, as the effect of exercising these options would have been anti-dilutive.

Basic and diluted earnings per share for the three and nine months ended March 31, 2011 and 2010 are calculated as follows (in thousands except per share data):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
<b>Numerator:</b>				
Net income, used in calculating diluted earnings per share	\$53,350	\$48,834	\$168,514	\$136,919
<b>Denominator:</b>				
Basic weighted-average common shares outstanding	153,251	150,876	152,407	150,648
<b>Effect of dilutive securities:</b>				
Stock options and restricted stock units	4,365	4,784	4,949	3,708
Diluted weighted average shares	157,616	155,660	157,356	154,356
Basic earnings per share	\$0.35	\$0.32	\$1.11	\$0.91
Diluted earnings per share	\$0.34	\$0.31	\$1.07	\$0.89



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PART I - FINANCIAL INFORMATION

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**RESMED INC. AND SUBSIDIARIES**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

(2) Summary of Significant Accounting Policies, Continued

(l) Financial Instruments

The carrying value of financial instruments, such as cash and cash equivalents, accounts receivable and accounts payable, approximate their fair value because of their short-term nature. The carrying value of long-term debt approximates the fair value as the principal amounts outstanding are subject to variable interest rates that are based on market rates which are regularly reset. Foreign currency option contracts are marked to market and therefore reflect their fair value. We do not hold or issue financial instruments for trading purposes. The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(m) Foreign Exchange Risk Management

We enter into various types of foreign exchange contracts in managing our foreign exchange risk, including derivative financial instruments encompassing forward exchange contracts and foreign currency options.

The purpose of our foreign currency hedging activities is to protect us from adverse exchange rate fluctuations with respect to net cash movements resulting from the sales of products to foreign customers and our Australian manufacturing activities. We enter into foreign currency hedging contracts to hedge anticipated sales and manufacturing costs, principally denominated

in Australian dollars, Euros and British Pounds Sterling. The terms of such foreign currency hedging contracts generally do not exceed three years.

Our foreign currency derivatives portfolio represents a cash flow hedge program against the net cash flow of our international manufacturing and sales operations. We have determined our hedge program to be a non-effective hedge. The foreign currency derivatives portfolio is recorded in the condensed consolidated balance sheets at fair value and included in other assets. Purchases of foreign currency derivatives and proceeds received from the exercise of foreign currency derivatives are classified as an investing activity within the condensed consolidated statements of cash flows.

All movements in the fair value of the foreign currency derivatives are recorded within other income, net in our condensed consolidated statements of income.



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PART I - FINANCIAL INFORMATION

Item 1

**RESMED INC. AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements****(Unaudited)****(2) Summary of Significant Accounting Policies, Continued****(n) Income Taxes**

We account for income taxes under the asset and liability method. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**(o) Warranty**

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

Changes in the liability for product warranty for the nine months ended March 31, 2011 are as follows (in thousands):

Balance at July 1, 2010	\$ 11,507
Warranty accruals for the nine months ended March 31, 2011	8,629
Warranty costs incurred for the nine months ended March 31, 2011	(9,112)
Foreign currency translation adjustments	2,553
Balance at March 31, 2011	\$ 13,577

**(p) Impairment of Long-Lived Assets**

We periodically evaluate the carrying value of long-lived assets to be held and used, including certain identifiable intangible assets, when events and circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

During the nine months ended March 31, 2011 and 2010, we recognized an impairment charge of \$2.3 million and \$nil, respectively, relating to impaired long-lived assets.

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PART I - FINANCIAL INFORMATION

Item 1

**RESMED INC. AND SUBSIDIARIES**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

(2) Summary of Significant Accounting Policies, Continued

(q) Cost-Method Investments

The aggregate carrying amount of our cost-method investments at March 31, 2011 and June 30, 2010, was \$3.6 million and \$1.7 million, respectively. We review the carrying value of these investments at each balance sheet date. We have determined that the carrying value of our cost method investments do not exceed their estimated fair values.

(r) Stock-Based Employee Compensation

We have granted stock options and restricted stock units to personnel, including officers and directors, under the ResMed Inc. 2009 Incentive Award Plan (the 2009 Plan ), the 2006 Incentive Award Plan, as amended (the 2006 Plan ) and the Amended and Restated ResMed Inc. 2006 Incentive Award Plan (the 2006 Amended Plan ). These options and restricted stock units have expiration dates of seven years from the date of grant and vest over one or four years. We granted the options with the exercise price equal to the market value as determined at the date of grant. We have also offered to our personnel, including officers, the right to purchase shares of our common stock at a discount under the ResMed Inc. 2009 Employee Stock Purchase Plan (the ESPP ).

We measure the compensation expense of all stock-based awards at fair value on the date of grant and recognize the compensation expense over the service period for awards expected to vest. The fair value of stock options is determined using the Black-Scholes valuation model. Such value is recognized as expense over the service period, using the straight-line method for stock-based awards. The fair value of restricted stock units is equal to the market value as determined at the date of grant.

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PART I - FINANCIAL INFORMATION

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**RESMED INC. AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

## (2) Summary of Significant Accounting Policies, Continued

## (r) Stock-Based Employee Compensation, Continued

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

	Three months ended		Nine months ended				
	March 31,		March 31,				
	2011	2010	2011	2010	2011	2010	
<b>Stock options:</b>							
Weighted average grant date fair value	\$10.15	\$8.27	\$10.30	\$8.03			
Weighted average risk-free interest rate	2.2%	2.4%	1.3%	2.2%			
Expected option life in years	5.3	5.0	5.0	5.3	4.0	5.0	
Expected volatility	31%	32%	31	32%	32	40%	
<b>ESPP purchase rights:</b>							
Weighted average risk-free interest rate	0.2%	0.2%	0.2%	0.2%			
Expected option life in years	6 months	6 months	6 months	6 months			
Expected volatility	26	29%	23%	26	29%	23	55%

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

(s) Reclassifications

An amount of \$26.1 million relating to prepaid taxes on intercompany profit in inventories was reclassified within the condensed consolidated balance sheet at June 30, 2010, from deferred income taxes to prepaid expenses and other current assets. There was no impact on working capital, total current assets or total assets, as a result of this reclassification.

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PART I - FINANCIAL INFORMATION

Item 1

**RESMED INC. AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements****(Unaudited)****(3) Inventories**

Inventories were comprised of the following at March 31, 2011 and June 30, 2010 (in thousands):

	March 31, 2011	June 30, 2010
Raw materials	\$ 71,620	\$ 63,120
Work in progress	3,333	2,427
Finished goods	130,047	120,095
Inventories, net	\$ 205,000	\$ 185,642

**(4) Comprehensive Income**

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