RESPIRONICS INC
Form 10-Q
February 14, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

X Quarterly Report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended December 31, 2001

or

___ Transition Report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from __________to___________

Commission File No. 000-16723

RESPIRONICS, INC.

(Exact name of registrant as specified in its charter)

Delaware	25-1304989
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1501 Ardmore Blvd. Pittsburgh, Pennsylvania	15221
(Address of principal executive offices)	(Zip Code)

(Registrant's Telephone Number, including area code) 412-731-2100

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 X No ___.

As of January 31, 2002, there were 34,180,788 shares of Common Stock of the registrant outstanding, of which 3,593,139 were held in treasury.

INDEX

RESPIRONICS, INC.

PART I - FINANCIAL INFORMATION

Independent Accountants' Review Report

Board of Directors
Respironics, Inc. and Subsidiaries

We have reviewed the accompanying condensed consolidated balance sheet of Respironics, Inc. and Subsidiaries as of December 31, 2001, and the related condensed consolidated statements of operations for the three-month and six-month periods ended December 31, 2001 and 2000, and the condensed consolidated statements of cash flows for the six-month periods ended December 31, 2001 and 2000. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Respironics, Inc. and Subsidiaries as of June 30, 2001, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended not presented herein and in our report dated July 24, 2001, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of June 30, 2001, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania
January 22, 2002

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

RESPIRONICS, INC. AND SUBSIDIARIES

	December 31 2001	June 2001
ASSETS		
CURRENT ASSETS		
Cash and short-term investments	$ 43,547,224	$ 27,320,9
Trade accounts receivable, less allowance for doubtful accounts of $17,280,000 and $16,457,000	103,097,025	98,078,3
Inventories	68,308,233	73,417,8
Prepaid expenses and other	12,475,124	10,937,1
Deferred income tax benefits	14,855,307	14,855,3
TOTAL CURRENT ASSETS	242,282,913	224,609,5
PROPERTY, PLANT AND EQUIPMENT		
Land	2,506,052	2,506,0
Building	8,569,297	8,509,5
Machinery and equipment	92,542,439	84,559,1
Furniture, office and computer equipment	60,388,517	56,011,3
Leasehold improvements	5,511,093	5,286,8
	169,517,398	156,873,0
Less allowances for depreciation and amortization	100,152,874	87,725,8
	69,364,524	69,147,2
OTHER ASSETS	13,522,671	14,334,9

GOODWILL	58,626,805	59,856,7
	$ 383,796,913	$ 367,948,4

See notes to consolidated financial statements.

	December 31 2001	
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 28,098,440	$ 2
Accrued expenses and other	19,810,901	1
Current portion of long-term obligations	797,087	
TOTAL CURRENT LIABILITIES	48,706,428	5
LONG-TERM OBLIGATIONS	79,648,070	8
SHAREHOLDERS' EQUITY		
Common Stock, $.01 par value; authorized 100,000,000 shares; issued and outstanding 34,152,935 shares at December 31, 2001 and 34,013,785 shares at June 30, 2001	341,529	
Additional capital	123,514,502	12
Accumulated other comprehensive loss	(3,961,160)	(
Retained earnings	178,092,894	16
Treasury stock	(42,545,350)	(4
TOTAL SHAREHOLDERS' EQUITY	255,442,415	23
	$ 383,796,913	$ 36

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

RESPIRONICS, INC. AND SUBSIDIARIES

	Three months ended		Six months	
	December 31 2001	December 31 2000	December 31 2001	
Net sales	$ 117,383,688	$ 104,547,903	$ 224,792,310	$ 1
Cost of goods sold	62,685,019	55,112,186	119,193,548	1

GROSS MARGIN	54,698,669	49,435,717	105,598,762	
General and administrative expenses	14,145,347	12,960,050	27,054,360	
Sales, marketing and commission expenses	19,557,427	17,595,740	39,056,228	
Research and development expenses	3,988,102	3,726,994	8,301,704	
Interest expense	792,412	2,013,838	1,867,000	
Other income	(286,453)	(210,830)	(609,885)	
	38,196,835	36,085,792	75,669,407	
INCOME BEFORE INCOME TAXES	16,501,834	13,349,925	29,929,355	
Income taxes	6,544,627	5,339,970	11,869,982	
NET INCOME	$ 9,957,207	$ 8,009,955	$ 18,059,373	$
Basic earnings per share	$ 0.33	$ 0.27	$ 0.59	$
Basic shares outstanding	30,493,789	29,813,027	30,451,000	
Diluted earnings per share	$ 0.32	$ 0.26	$ 0.58	$
Diluted shares outstanding	31,444,073	30,772,494	31,402,589	

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

RESPIRONICS, INC. AND SUBSIDIARIES

OPERATING ACTIVITIES	
Net income	$
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	
Changes in operating assets and liabilities:	
Increase in accounts receivable	
Decrease (increase) in inventories	
Change in other operating assets and liabilities	
NET CASH PROVIDED BY OPERATING ACTIVITIES	
INVESTING ACTIVITIES	
Purchase of property, plant and equipment	
Additional purchase price for acquired business	

NET CASH USED BY
INVESTING ACTIVITIES

FINANCING ACTIVITIES
Net decrease in borrowings
Issuance of common stock
Use (acquisition) of treasury stock, net

NET CASH (USED) PROVIDED BY
FINANCING ACTIVITIES

INCREASE IN CASH AND
SHORT-TERM INVESTMENTS

Cash and short-term investments at beginning of period

CASH AND SHORT-TERM INVESTMENTS AT END OF PERIOD $

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

RESPIRONICS, INC. AND SUBSIDIARIES

December 31, 2001

NOTE A -- BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months and six months ended December 31, 2001 are not necessarily indicative of the results that may be expected for the year ended June 30, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2001.

NOTE B -- INVENTORIES

The composition of inventory is as follows:

	December 31 2001	June 30 2001
Raw materials	$16,231,000	$20,738,000
Work-in-process	4,233,000	5,961,000
Finished goods	47,844,000	46,719,000

	$68,308,000	$73,418,000
	===========	===========

NOTE C -- CONTINGENCIES

As previously disclosed, the Company is party to actions filed in a Federal District Court in January 1995 and June 1996 in which a competitor alleges that the Company's manufacture and sale in the United States of certain products infringes four of the competitor's patents. In its response to these actions, the Company has denied the allegations and has separately sought judgment that the claims under the patents are invalid or unenforceable and that the Company does not infringe upon the patents. The January 1995 and June 1996 actions have been

consolidated. The Court has granted the Company's various motions for summary judgment and held that the Company does not infringe any of the competitor's four patents at issue. The competitor may seek an appeal of those decisions. In any event, the Company intends to continue to pursue its claims that the competitor's patents are invalid or unenforceable.

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

NOTE D -- RESTRUCTURING CHARGES

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

RECONCILIATION OF RESTRUCTURING RESERVES

	Employee Severance Costs	Asset Write-Downs	L &
Balance at July 1, 1999	$ -	$ -	$
Restructuring charges (net)	6,300,000	8,900,000	1
Cash expenditures	(3,100,000)	-	(1
Noncash expenditures	-	(1,700,000)	
Balance at June 30, 2000	3,200,000	7,200,000	
Restructuring charges (net)	(200,000)	1,000,000	
Cash expenditures	(1,500,000)	-	
Noncash expenditures	-	(2,500,000)	
Balance at June 30, 2001	1,500,000	5,700,000	

Restructuring charges (net)	-	-	
Cash expenditures	(400,000)	-	
Noncash expenditures	-	(400,000)	
Balance at September 30, 2001	1,100,000	5,300,000	
Restructuring charges (net)	-	-	
Cash expenditures	(400,000)	-	
Noncash expenditures	-	-	
Balance at December 31, 2001	$ 700,000	$ 5,300,000	$

The non-cash expenditures presented as reductions of the asset write-down restructuring charge represent disposals of fully written-down assets, including rationalized inventories and impairments to long-lived assets held for disposal consisting of machinery, equipment and computer software.

Restructuring costs incurred but not yet paid have been credited to accrued expense and asset write-downs have been credited against the applicable asset accounts. Substantially all of the remaining restructuring accruals as of December 31, 2001 are expected to be paid out during fiscal year 2002.

NOTE E - COMPREHENSIVE INCOME

The components of comprehensive income, net of tax, were as follows:

	Three Months Ended		
	December 31, 2001	December 31, 2000	
Net income	$ 9,957,000	$ 8,010,000	$
Foreign currency translation (losses) gains	(459,000)	286,000	
Comprehensive income	$ 9,498,000	$ 8,296,000	$

NOTE F - ACQUISITION

On December 18, 2001, the Company announced that it had entered into a definitive merger agreement with Novametrix Medical Systems Inc. ("Novametrix") pursuant to which the Company will acquire Novametrix. Under the terms of the agreement, the Company will issue a number of shares of its common stock determined by an exchange ratio that is based upon the weighted average selling prices of the Company's stock during a 20 day trading period prior to the closing, subject to a collar.

The exchange ratio determines the number of shares of the Company's stock that will be provided for each share of Novametrix common stock. If the Company's weighted average selling price is from $30.00 to $31.99 per share over the relevant trading period, the exchange ratio will be equal to $8.00 divided by the weighted average selling price. If the Company's weighted average selling price is from $32.00 to $35.00 over the relevant trading period, the exchange ratio will be equal to 0.25. If the Company's weighted average selling price exceeds $35.00, the exchange ratio will be equal to $8.75 divided by the weighted average selling price. If the Company's weighted average selling price is below $30.00 during the relevant trading period, the exchange ratio will be equal to 0.2667. However, if the Company's weighted average selling price is below $30.00 during the relevant trading period, Novametrix has the right to terminate the merger agreement. For additional information about the exchange ratio and the collar, see the Company's Registration Statement on Form S-4 filed with the Securities and Exchange Commission.

Based on the Company's share price immediately prior to the announcement of the acquisition, the transaction would be valued at approximately $90 million, including the assumption of approximately $6 million in debt. The transaction is subject to approval by the stockholders of Novametrix and to customary closing conditions. Novametrix, which is publicly held and headquartered in Wallingford, Connecticut, is a leading cardiorespiratory monitoring company that develops, manufactures and markets proprietary state-of-the-art noninvasive monitors, sensors and disposable accessories. Novametrix's sales for its fiscal year ended April 29, 2001 were $54.7 million. The transaction is expected to close late in the third quarter or early in the fourth quarter of the Company's 2002 fiscal year.

NOTE G - RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations," ("FAS 141") and No. 142, "Goodwill and Other Intangible Assets," ("FAS 142") effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company will apply the provisions of FAS 141 to account for any business combination that is consummated after July 1, 2001, including the pending acquisition of Novametrix described in Note F.

The Company will apply the new rules under FAS 142 on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal year 2003. Application of the nonamortization provisions of the Statement is expected to result in an increase in annual net income, the impact of which is not yet fully determined. During fiscal year 2003, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of July 1, 2002.

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

The statements contained in this Quarterly Report on Form 10-Q, specifically those contained in Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations", along with statements in other sections of this document and other 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 and Exchange Act of 1934, as amended. These forward-looking statements represent the Company's present expectations or beliefs concerning future events. The Company cautions that such statements are qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements. Results actually achieved may differ materially from expected results included in these statements. Those factors include, but are not limited to, the following: foreign currency fluctuations, regulations and other factors affecting operations and sales outside the United States including potential future effects of the change in sovereignty of Hong Kong, customer consolidation and concentration, increasing price competition and other competitive factors in the sale of products, the success of programs, interest rate fluctuations, intellectual property and related litigation, other litigation, successful integration of acquisitions, FDA and other government regulation, and third party reimbursement.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

Net sales for the three months ended December 31, 2001 were $117,384,000 representing a 12% increase over the sales of $104,548,000 recorded for the three months ended December 31, 2000. Increases in unit and dollar sales for the Company's sleep apnea therapy devices (the Company's largest product line) and oxygen concentrator devices, as well as increases in the sales of masks and accessories, helped to drive the increase in sales for the quarter. Sales of the Company's non-invasive ventilation devices (units used to assist patients suffering from breathing disorders via airflow delivered through a mask) also increased during the quarter, particularly sales of the Company's BiPAP(R) Synchrony(TM) Ventilatory Support System, which was introduced during fiscal year 2001. These product lines comprise the major part of the Company's homecare product offerings. Sales of the Company's hospital products also increased during the current quarter, particularly sales of the Company's BiPAP(R) Vision(TM) ventilator.

Net sales for the six months ended December 31, 2001 were $224,792,000 representing a 14% increase over the sales of $196,612,000 recorded for the six months ended December 31, 2000. Increases in the Company's sleep apnea therapy devices, oxygen concentrators, and masks and accessories as discussed above accounted for the majority of the increase in sales, along with increased sales of the Company's BiPAP(R) Synchrony(TM) non-invasive ventilation device and the Company's hospital BiPAP(R) Vision(TM) ventilator.

The Company's gross profit was 47% of net sales for the quarters and six months ended December 31, 2001 and 2000. This static gross profit percentage reflects the impact of higher revenue levels, offset by sales mix and selling price decreases consistent with those decreases seen in prior years.

General and administrative expenses were $14,145,000 (12% of net sales) for the quarter ended December 31, 2001 as compared to $12,960,000 (12% of net sales) for the quarter ended December 31, 2000. For the six-month period ended December 31, 2001, general and administrative expenses were $27,054,000 (12% of net sales) as compared to $23,830,000 (12% of net sales) for the prior year six-month period. The increases in absolute dollars of general and administrative expenses for the current quarter and six-month periods were due primarily to increases in spending consistent with the growth of the Company's business.

Sales, marketing and commission expenses were $19,557,000 (17% of net sales) for the quarter ended December 31, 2001 as compared to $17,596,000 (17% of net sales) for the quarter ended December 31, 2000. For the six-month period ended December 31, 2001, sales, marketing and commission expenses were $39,056,000 (17% of net sales) as compared to $34,419,000 (18% of net sales) for the prior

year six-month period. The increases in absolute dollars of expense for the current quarter and six-month periods were due primarily to increased sales (resulting in higher commission and bonus expenses) and increased sales, marketing, product support, and service activity levels across the Company's product lines during the current year.

Research and development expenses were $3,988,000 (3% of net sales) for the quarter ended December 31, 2001 as compared to $3,727,000 (4% of net sales) for the quarter ended December 31, 2000. For the six-month period ended December 31, 2001, research and development expenses were $8,302,000 (4% of net sales) as compared to $7,098,000 (4% of net sales) for the prior year six-month period. The increases in absolute dollars of expense for the current quarter and six-month periods were due primarily to the timing of research and development projects. During the current quarter the Company introduced several new products including a bi-level obstructive sleep apnea therapy unit called the BiPAP(R) Pro and the ComfortClassic(TM) Nasal Mask. Significant product development efforts are ongoing and new product launches in many of the Company's major product lines are scheduled for the remainder of fiscal year 2002. Additional development work and clinical trials are being conducted in certain product areas outside the Company's current core products, including congestive heart failure.

The Company's effective income tax rate was approximately 40% for all periods presented.

As a result of the factors described above, the Company's net income was $9,957,000 (8% of net sales) or $0.32 per diluted share for the quarter ended December 31, 2001 as compared to net income of $8,010,000 (8% of net sales) or $0.26 per diluted share for the quarter ended December 31, 2000. For the six-month period ended December 31, 2001, the Company's net income was $18,059,000 (8% of net sales) or $0.58 per diluted share as compared to net income of $14,301,000 (7% of net sales) or $0.47 per diluted share for the prior year six-month period.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company had working capital of $193,576,000 at December 31, 2001 and $171,985,000 at June 30, 2001. Net cash provided by operating activities was $31,676,000 for the six months ended December 31, 2001 as compared to $17,048,000 for the six months ended December 31, 2000. The increase in cash provided by operating activities for the current six-month period was primarily due to higher earnings and reductions in inventory in the current period as compared to an inventory increase in the prior year.

Net cash used by investing activities was $13,680,000 for the six months ended December 31, 2001 as compared to $17,147,000 for the six months ended December 31, 2000. Cash used by investing activities for both periods include capital expenditures, including

the purchase of leasehold improvements, production equipment, computer hardware and software, and telecommunications and office equipment. In addition, cash used by investing activities in the periods described includes additional purchase price paid for a previously acquired business pursuant to the terms of that acquisition agreement. The funding for investment activities in both periods was provided by positive cash flow from operating activities and accumulated cash and short-term investments.

Net cash used or provided by financing activities consists primarily of repayments under the Company's various long-term obligations and proceeds from the issuance of common stock under the Company's stock option plans. Net cash used by financing activities was $1,770,000 for the six months ended December 31, 2001 as compared to net cash provided by financing activities of $4,572,000 for the six months ended December 31, 2000. The reduction in cash flow from financing activities was due primarily to a repayment of $3,000,000 on the Company's revolving credit facility during the current year and a reduction in proceeds from the issuance of stock under the Company's stock option plans compared to prior year amounts.

The Company has contractual financial obligations and commercial financial commitments consisting primarily of long-term debt, capital lease obligations, and non-cancelable operating leases. The composition, nature, and amount of these obligations and commitments have not changed materially since June 30, 2001. See the Notes to the Company's Consolidated Financial Statements in its Annual Report on Form 10-K for the year ended June 30, 2001 for information about these obligations and commitments.

In connection with customer leasing programs with independent leasing companies, the Company is contingently liable, in the event of a customer default, to the leasing companies for certain unpaid installment receivables transferred to the leasing companies. The total exposure for unpaid installment receivables was approximately $19,005,000 at December 31, 2001 as compared to $22,670,000 at June 30, 2001. The transfer of these installment receivables meets the criteria of Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," (and Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," which was effective for such transfers that occurred after March 31, 2001) and therefore, these receivables are not recorded on the Company's financial statements.

The Company's revolving credit agreement expires April 30, 2003. The Company has begun discussions with the agent for its current bank group regarding renewing or replacing the Company's existing revolving credit agreement. The Company expects to have a new credit agreement in place prior to the expiration of the existing credit agreement. The amount that would be borrowed under the new credit agreement has not yet been determined, but is currently expected to be at least $125,000,000, the amount available for borrowing under the current revolver.

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 $44,950,000 at December 31, 2001), and its accumulated cash and short-term investments) 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).

Item 3. 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 December 31, 2001, the Company had total long-term debt obligations, including the current portion of those obligations, of $80,445,000. Of that amount, $1,745,000 was in fixed rate obligations and $78,700,000 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 December 31, 2001 weighted average interest rate of 3.64% to a weighted average interest rate of 4.00%), annual interest expense would be approximately $286,000 higher based on the December 31, 2001 outstanding balance of variable rate obligations. The Company has no interest rate swap or exchange agreements.

Foreign Exchange Rates: Information relating to the sensitivity to foreign currency exchange rate changes is omitted because foreign exchange exposure risk has not materially changed from that disclosed in the Company's Annual Report on Form 10-K for the year ended June 30, 2001.

Inflation

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

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations," ("FAS 141") and No. 142, "Goodwill and Other Intangible Assets," ("FAS 142") effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company will apply the provisions of FAS 141 to account for any business combination that is consummated after July 1, 2001, including the pending acquisition of Novametrix described in Note F.

The Company will apply the new rules under FAS 142 on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal year 2003. Application of the nonamortization provisions

of the Statement is expected to result in an increase in annual net income, the impact of which is not yet fully determined. During fiscal year 2003, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of July 1, 2002.

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

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

PART 2 OTHER INFORMATION

Item 1: Legal Proceedings

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.

Item 2: Changes in Securities

(a) Not applicable
(b) Not applicable
(c) Not applicable

Item 3: Defaults Upon Senior Securities

(a) Not applicable
(b) Not applicable

Item 4: Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Shareholders was held on November 12, 2001. The holders of 28,687,815 shares of the Company's stock (approximately 84% of the outstanding shares) were present at the meeting in person or by proxy. The only matters voted upon at the meeting were:

(i) the election of four persons to serve as directors for a three year term expiring at the Annual Meeting of Shareholders in 2004,

(ii) the adoption of the Company's 2002 Employee Stock Purchase Plan, and

(iii) the ratification of the selection of Ernst & Young LLP as independent public accountants to audit the financial statements of the Company for the fiscal year ending June 30, 2002.

The results of voting were as follows:

(i) Douglas A. Cotter, Gerald E. McGinnis, Craig B. Reynolds, and Candace L. Littell, the nominees of the Company's Board of Directors, were elected to serve until the Annual Meeting of Shareholders in 2004. There were no other nominees.

Shares were voted as follows:

Name	For	Withhold Vote For
Douglas A. Cotter	28,267,733	420,082
Gerald E. McGinnis	27,158,271	1,529,544
Craig B. Reynolds	19,405,472	9,282,343
Candace L. Littell	28,265,129	422,686

(ii) The adoption of the Company's 2002 Employee Stock Purchase Plan; affirmative votes, 28,436,710; negative votes, 194,391.

(iii) the selection of Ernst & Young LLP as independent public accountants for the 2002 fiscal year was ratified: affirmative votes, 28,560,557; negative votes, 113,866.

Item 5: Other Information

Not applicable

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 15 Acknowledgement of Ernst & Young LLP.

(b) Reports on Form 8-K

Current Report on Form 8-K of Respironics, Inc. with a Report Date of December 18, 2001, announcing a definitive merger agreement for the acquisition of Novametrix Medical Systems Inc. by the Company.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RESPIRONICS, INC.

Date: 2/14/02

/s/ Daniel J. Bevevino

Daniel J. Bevevino
Vice President, and Chief
Financial and Principal
Accounting Officer

Signing on behalf of the
registrant and as Chief
Financial and Principal
Accounting Officer