

RESMED INC
Form DEF 14A
October 19, 2004

SCHEDULE 14A INFORMATION

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934
(AMENDMENT NO.)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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| <input type="checkbox"/> | Preliminary Proxy Statement | <input type="checkbox"/> | Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
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ResMed Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of ResMed Inc, at 3:00 p.m. local time, on Thursday, November 18, 2004, in the corporate offices of ResMed Inc, located at 14040 Danielson Street, Poway, CA 92064.

Information about the business of the meeting, the nominees for election as directors and other proposals is set forth in the Notice of Meeting and the Proxy Statement, which are attached. This year you are asked to elect two directors of the Company, and to ratify the selection of our independent auditors for fiscal year 2005.

Very truly yours,

Peter C. Farrell
Chairman and Chief Executive Officer

RESMED INC

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOVEMBER 18, 2004

The 2004 Annual Meeting of Shareholders of ResMed Inc will be held in the corporate offices of ResMed Inc, located at 14040 Danielson Street, Poway, CA 92064, on November 18, 2004, at 3:00 p.m. local time for the following purposes:

1. To elect two directors, each to serve for a three-year term;
2. To ratify the selection of KPMG LLP as our independent auditors to examine our consolidated financial statements for the fiscal year ending June 30, 2005; and
3. To transact such other business as may properly come before the meeting.

Please refer to the accompanying proxy statement for a more complete description of the matters to be considered at the meeting. Only shareholders of record at the close of business on September 23, 2004, will be entitled to notice of, and to vote at, the 2004 Annual Meeting and any adjournment thereof.

It is important that your shares be represented at the annual meeting. Even if you plan to attend the annual meeting in person, please sign, date and return your proxy form in the enclosed envelope as promptly as possible. This will not prevent you from voting your shares in person if you attend, but will make sure that your shares are represented in the event that you cannot attend.

Please sign, date and return the enclosed proxy promptly in the envelope provided, which requires no United States postage.

By Order of the Board of Directors,

David Pendarvis,
Secretary
Dated: October 19, 2004

RESMED INC

PROXY STATEMENT

Annual Meeting of Shareholders to be held November 18, 2004

General

The enclosed proxy is solicited on behalf of the board of directors of ResMed Inc for use at the 2004 Annual Meeting of Shareholders. The Annual Meeting will be held at 3:00 p.m. on Thursday, November 18, 2004, in the corporate offices of ResMed Inc, located at 14040 Danielson Street, Poway, CA 92064. This proxy will be used at the Annual Meeting and at any and all adjournments and postponements thereof for the following purposes:

1. To elect two directors, each to serve for a three-year term;
2. To ratify the selection of KPMG LLP as our independent auditors to examine our consolidated financial statements for the fiscal year ending June 30, 2005; and
3. To transact such other business as may properly come before the meeting.

The enclosed proxy may be revoked at any time before its exercise by giving written notice of revocation to our Secretary at our principal executive offices located at 14040 Danielson Street, Poway, CA 92064, USA. You may also revoke your proxy and change your vote by voting in person at the meeting. Please note that your attendance at the meeting will not constitute a revocation of your proxy unless you actually vote at the meeting.

The shares represented by proxies (in the form solicited by the board of directors) received by us before or at the meeting will be voted at the meeting. If a choice is specified on the proxy with respect to a matter to be voted upon, the shares represented by the proxy will be voted in accordance with that specification. If no choice is specified, the shares will be voted as stated below in this proxy statement.

We expect to first mail this proxy statement and the accompanying form of proxy to our shareholders on or about October 19, 2004. Our Annual Report to Shareholders for fiscal year 2004 is enclosed with this proxy statement along with a copy of our Annual Report to the Securities and Exchange Commission on Form 10-K, but those reports do not form a part of the proxy soliciting material. The cost of soliciting proxies will be borne by us. Following the original mailing of the proxy soliciting material, further solicitation of proxies may be made by mail, telephone, facsimile, electronic mail, and personal interview by our regular employees, who will not receive additional compensation for such solicitation. We will also request that brokerage firms and other nominees or fiduciaries forward copies of the proxy soliciting material, Form 10-K and the 2004 Annual Report to beneficial owners of the stock held in their names, and we will reimburse them for reasonable out-of-pocket expenses incurred in doing so.

Voting Securities and Voting Rights

Only recordholders of our common stock as of the close of business on September 23, 2004 (the record date) are entitled to receive notice of and to vote at the meeting. At the record date we had 33,856,987 outstanding shares of common stock, the holders of which are entitled to one vote per share. Accordingly, an aggregate of 33,856,987 votes may be cast on each matter to be considered at the meeting.

Holders of our Chess Units of Foreign Securities (CUFS) vote by directing the CHESSE nominee how to vote the shares of our common stock underlying their CUFS holdings using the form of proxy provided to them by the CHESSE nominee. If you hold your shares in street name you must use the legal proxy sent by your broker in order to vote at the meeting. Holding shares in street name means your ResMed shares are held in an account at a brokerage firm or bank or other nominee holder and the stock certificates and record ownership are not in your name. We encourage you to provide instructions to your brokerage firm or the CHESSE nominee, as applicable, by completing the proxy that it sends to you. This will ensure that your shares are voted at the meeting.

To constitute a quorum for the conduct of business at the meeting, a majority of the outstanding shares entitled to vote at the meeting must be represented at the meeting. Shares represented by proxies that reflect abstentions or broker non-votes (street name shares held by a broker or nominee which are represented at the meeting, but with respect to which

the broker or nominee is not empowered to vote on a particular proposal) will be counted as shares represented at the meeting for purposes of determining a quorum.

Common Stock Ownership of Principal Shareholders and Management

The following table shows the number of shares of common stock that, according to information supplied to us, are beneficially owned as of the record date by (1) each person who, to our knowledge based on Schedules 13G filed with the Securities and Exchange Commission and Substantial Shareholder Notices filed with the Australian Stock Exchange, is the beneficial owner of more than five percent of our outstanding common stock, (2) each person who is currently a director, two of whom are also nominees for election as directors, (3) each of the Named Officers as defined on page 4, and (4) all current directors and executive officers as a group. As used in this proxy statement, beneficial ownership means the sole or shared power to vote, or to direct the voting of, a security, or the sole or shared investment power with respect to a security (that is, the power to dispose of, or to direct the disposition of, a security). A person is deemed, as of any date, to have beneficial ownership of any security that the person has the right to acquire within 60 days after that date.

Name of Beneficial Owner ⁽¹⁾	Amount and Nature of Beneficial Ownership ⁽²⁾	Percent of Outstanding Common Stock
Fidelity Management & Research 82 Devonshire Street Boston, MA 02109	4,018,261 ⁽³⁾	11.9
William Blair & Company LLC 222 West Adams Street Chicago, IL 60606	2,456,276 ⁽⁴⁾	7.3
Peter C. Farrell	888,546 ⁽⁵⁾	2.6
Christopher G. Roberts	309,000 ⁽⁶⁾	0.9
Gary W. Pace	177,666 ⁽⁷⁾	0.5
Michael A. Quinn	145,200 ⁽⁸⁾	0.4
Donagh McCarthy	102,000 ⁽⁹⁾	0.2
Louis A. Simpson	65,200 ⁽¹⁰⁾	0.1
Kieran Gallahue	56,982 ⁽¹¹⁾	0.1
Adrian Smith	51,667 ⁽¹²⁾	0.1
Christopher Bartlett	50,000 ⁽¹³⁾	0.1
David Pendarvis	16,508 ⁽¹⁴⁾	0.0
Paul Eisen	4,000 ⁽¹⁵⁾	0.0
All current executive officers and directors as a group (11 persons)	1,866,769	5.5

⁽¹⁾ The address of the directors and officers listed in this table is 14040 Danielson Street, Poway, California, 92064-6857.

⁽²⁾ Beneficial ownership is stated as of September 23, 2004, and includes shares subject to options exercisable within 60 days after September 23, 2004. Shares subject to options are deemed beneficially owned by the person holding the options for the purpose of computing the percentage of ownership of that person but are not treated as outstanding for the purpose of computing the percentage of any other person.

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- (3) Based on information provided in a Schedule 13G Fidelity Management & Research filed with the Securities & Exchange Commission, Fidelity Management & Research has shared dispositive power and shared voting power and beneficial ownership over these shares.
- (4) Based on information provided by William Blair & Company, William Blair & Company has shared dispositive power and shared voting power and beneficial ownership over these shares.
- (5) Includes 196,260 shares of common stock that may be acquired on the exercise of options exercisable within 60 days after September 23, 2004.
- (6) Includes 5,800 shares held by his wife, 199,200 shares held of record by Cabbit Pty Ltd and 34,000 shares held by Acemed Pty Ltd, two Australian corporations controlled by Dr. Roberts and his wife. Includes 70,000 shares of common stock that may be acquired on the exercise of options exercisable within 60 days after September 23, 2004.
- (7) Includes 47,500 shares that are indirectly held in a variable forward sales contract with Credit Suisse First Boston and 49,333 shares of common stock that may be acquired on the exercise of options exercisable within 60 days after September 23, 2004.
- (8) Includes 61,700 shares of common stock that may be acquired on the exercise of options exercisable within 60 days after September 23, 2004.
- (9) Includes 90,000 shares of common stock that may be acquired on the exercise of options exercisable within 60 days after September 23, 2004.
- (10) Includes 18,200 shares held in his name, 25,000 shares held in a trust, 4,000 shares owned by his wife and 18,000 shares of common stock that may be acquired on the exercise of options exercisable within 60 days after September 23, 2004.

- (11) Comprised of options exercisable within 60 days after September 23, 2004, and approximately 315 shares that Mr. Gallahue has a right to purchase at a discounted rate on October 29, 2004 under our Employee Stock Purchase Plan.
- (12) Comprised of options exercisable within 60 days after September 23, 2004.
- (13) Includes 49,000 shares of common stock that may be acquired on the exercise of options exercisable within 60 days after September 23, 2004.
- (14) Includes 15,000 shares of common stock that may be acquired on the exercise of options exercisable within 60 days after September 23, 2004 and approximately 508 shares that Mr. Pendarvis has a right to purchase at a discounted rate on October 29, 2004 under our Employee Stock Purchase Plan.
- (15) Comprised solely of 4,000 shares of common stock that may be acquired on the exercise of options exercisable within 60 days after September 23, 2004.

Executive Officers

Our executive officers, as of September 23, 2004 were:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Peter C. Farrell	62	Chief Executive Officer and Chairman of the Board of Directors
Kieran T. Gallahue	41	President, ResMed Global
Adrian M. Smith	40	Sr. Vice President, Finance and Chief Financial Officer
David Pendarvis	45	Vice President, Global General Counsel and Secretary
Paul Eisen	45	Vice President, Europe and Asia Pacific

For a description of the business background of Dr. Farrell, see Matters to be Acted on/Election of Directors.

Kieran T. Gallahue has been President, ResMed Global, since September 7, 2004. Before that, and beginning in January 2003, Mr. Gallahue was President and Chief Operating Officer of the Americas. Before joining ResMed, Mr. Gallahue served as President of Nanogen, Inc., a San Diego-based DNA research and medical diagnostics company. Mr. Gallahue also held the roles of Chief Financial Officer and Vice President of Strategic Marketing for Nanogen. From 1995 to 1997 he served as Vice President of the Critical Care Business Unit for Instrumentation Laboratory, or IL, where he was responsible for worldwide strategic sales and marketing, and research and development efforts for this business unit. From 1992 to 1995 he held a variety of sales and marketing positions within IL. In addition, Mr. Gallahue held various marketing and financial positions within Procter & Gamble and the General Electric Company. Mr. Gallahue holds a B.A. from Rutgers University and an M.B.A. from Harvard Business School.

Adrian Smith has been Sr. Vice President, Finance and Chief Financial Officer since November 24, 2003. Before that, and beginning in February 1995, Mr. Smith was Vice President and Chief Financial Officer. From January 1986 through January 1995, Mr. Smith was employed by Price Waterhouse, specializing in the auditing of listed public companies in the medical and scientific field. Mr. Smith holds a B.Ec. from Macquarie University and is a Certified Chartered Accountant.

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David Pendarvis has been Vice President, Global General Counsel since September 2002 and Corporate Secretary from February 2003. From September 2000 until September 2002, Mr. Pendarvis was a partner in the law firm of Gray Cary Ware & Freidenrich LLP where he specialized in intellectual property and general business litigation. Until September 2000 he was a partner with Gibson, Dunn & Crutcher LLP, where he began working in 1986. From 1984 until 1986 he was a law clerk to the Hon. J. Lawrence Irving, U.S. District Judge, Southern District of California. Mr. Pendarvis holds a B.A. from Rice University, and a J.D., *cum laude*, from the University of Texas School of Law.

Paul Eisen has been Vice President, Europe & Asia Pacific since January 1, 2004. From 2002 to 2004 Mr. Eisen was Vice President, Asia Pacific. Before joining ResMed, Mr. Eisen was a senior executive at General Electric Medical Systems responsible for the Medical Systems Division in Australia and New Zealand, with Asia-wide responsibilities. Mr. Eisen has also held senior sales and marketing positions in the healthcare industry covering segments including high value capital imaging and pathology equipment. Mr. Eisen also had extensive experience at Roche Diagnostics in the diabetes patient care and consumer market. Mr. Eisen holds a degree in Diagnostic Radiography from Sydney Technical Institute and a postgraduate diploma in Marketing from the University of Technology, Sydney.

Executive Compensation

The following table sets forth certain information regarding the annual and long-term compensation paid for services rendered to us in all capacities for the fiscal years ended June 30, 2004, 2003 and 2002 of those persons who were at June 30, 2004 (1) the chief executive officer, (2) one of the four other most highly compensated executive officers whose annual salary and bonuses exceeded \$100,000 or (3) any other executive officer who would have qualified under sections

(1) or (2) of this paragraph but for the fact that the individual was not serving as an executive officer at the end of the 2004 fiscal year (collectively, the Named Officers).

Summary Compensation Table

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation Awards	
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$) ⁽¹⁾	Securities Underlying Options	All Other Compensation (\$) ⁽²⁾
Peter C. Farrell Chief Executive Officer	2004	413,125	273,534	0	60,000	7,501
	2003	392,375	244,935	0	60,000	8,272
	2002	365,000	213,399	0	80,000	11,000
Kieran Gallahue, President, ResMed Global ⁽³⁾	2004	300,000	155,726	0	0	1,039
	2003	137,500	29,877	0	150,000	454
David Pendarvis ⁽³⁾ Vice President, General Counsel and Secretary	2004	216,500	123,358	0	6,000	6,897
	2003	166,667	151,675	0	30,000	140
Adrian Smith Sr. Vice President, Finance and Chief Financial Officer	2004	209,884	154,864	0	10,000	21,147
	2003	161,425	98,477	0	10,000	14,800
	2002	106,532	45,848	3,527	15,000	8,777
Christopher G. Roberts ⁽³⁾ Former Executive Vice President	2004	161,060	78,880	0	0	15,812
	2003	220,125	128,106	0	15,000	20,083
	2002	172,800	75,821	0	20,000	13,824
Paul Eisen, Vice President, ResMed Asia Pacific ⁽³⁾	2004	115,322	51,126	32,867	15,000	13,922

⁽¹⁾ Represents cash value of company-provided vehicle.

⁽²⁾ For fiscal year 2004, includes term life insurance premiums paid on behalf of: Peter Farrell (\$1,501); Kieran Gallahue (\$1,039); David Pendarvis (\$897); Adrian Smith (\$2,257); Christopher Roberts (\$1,317); and Paul Eisen (\$2,294). The remainder represents ResMed's contributions to defined contribution plans.

⁽³⁾ Mr. Gallahue joined ResMed in January 2003. Mr. Pendarvis joined ResMed in September 2002. Mr. Roberts resigned from ResMed in January 2004. Mr. Eisen first became an executive officer in January 2004. This table does not include compensation during the periods they were not executive officers.

Stock Options

The following table sets forth certain information with respect to option grants made during the fiscal year ended June 30, 2004 to the Named Officers.

Option Grants in Last Fiscal Year

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Name	Number of Securities Underlying Options Granted ⁽¹⁾	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Share Price Appreciation for Option Term (\$) ⁽²⁾	
					5%	10%
Peter C. Farrell	60,000	7.1	41.49	Dec. 18, 2013	1,372,476	3,380,475
Kieran Gallahue	0	0	N/A	N/A	0	0
David Pendarvis	6,000	.7	41.49	Dec. 18, 2013	137,248	338,047
Adrian Smith	10,000	1.2	41.49	Dec. 18, 2013	228,746	563,412
Christopher Roberts	0	0	N/A	N/A	0	0
Paul Eisen	15,000	1.8	41.49	Dec. 18, 2013	343,119	845,119

⁽¹⁾ Represents options granted under our 1997 Equity Participation Plan, which are exercisable 33% per year on the anniversary date of grant starting on the first anniversary of the grant date. Under the 1997 Plan, this exercise schedule may be accelerated in certain specific

situations. In addition, we have the right to require the surrender of outstanding options on the grant of lower priced options to the same individual.

(2) Assumed annual rates of share appreciation for illustrative purposes only. Actual share prices and realizable value will vary from time to time based on market factors and our financial performance. No assurance can be given that such rates will be achieved.

The following table sets forth information concerning the stock option exercises by our Named Officers during the fiscal year ended June 30, 2004 and the unexercised stock options held at June 30, 2004 by the Named Officers.

Aggregate Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

Name	Shares Acquired on Exercise	Value Realized (\$)	Number of Securities Underlying Unexercised Options at FY-End		Value of Unexercised In-the-Money Options at FY-End (\$) ⁽¹⁾	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Peter C. Farrell	74,374	1,848,622	180,593	126,667	4,560,328	1,600,733
Kieran Gallahue	0	0	16,666	133,334	316,487	2,532,013
David Pendarvis	0	0	10,000	26,000	184,450	425,720
Adrian Smith	19,000	796,362	53,333	21,667	1,512,250	267,025
Christopher G. Roberts	60,000	1,963,440	40,000	35,000	711,453	303,872
Paul Eisen	0	0	2,000	19,000	51,080	244,210

(1) Represents the amount by which the closing sales price of our common stock on the New York Stock Exchange on June 30, 2004 (\$50.96 per share), multiplied by the number of shares to which the in-the-money options apply, exceeded the exercise price of those options.

Equity Compensation Plan Information

The following table summarizes outstanding stock option plan balances as at June 30, 2004:

Plan Category	Number of securities to be issued on exercise of outstanding options	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
1997 Equity participation plan approved by security holders	4,416,356	\$ 32.38	1,149,566 ⁽¹⁾
Employee stock purchase plan approved by security holders	0	0	3,250,000
	0	0	0

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Equity compensation plans not approved by security holders

Total	4,416,356	\$ 32.38	4,399,566
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- (1) The total number of authorized shares of common stock under the 1997 Equity Participation Plan was initially established at 1,000,000 and increases at the beginning of each fiscal year, commencing on July 1, 1998, by an amount equal to 4% of the outstanding common stock on the last day of the preceding fiscal year. The maximum number of shares of common stock issuable on exercise of incentive stock options granted under the 1997 Plan, however, cannot exceed 8,000,000.

Report of the Compensation Committee

Introduction

Decisions regarding compensation of our executive officers are made based on recommendations by the Compensation Committee, which is composed of three independent directors. The Compensation Committee's decisions on compensation of our executive officers, other than ResMed's Chief Executive Officer, are reviewed and approved by the full board. Set forth below is a report submitted by Donagh McCarthy, Gary Pace and Christopher Bartlett, in their capacity as members of the board's Compensation Committee, addressing our compensation policies for fiscal year 2004 as they affected our executive officers, including the Chief Executive Officer and the other Named Officers.

General Philosophy

The Compensation Committee reviews and determines salaries, bonuses and all other elements of the compensation packages offered to ResMed's executive officers, including its Chief Executive Officer, and establishes our general compensation policies. The Compensation Committee operates under a written charter adopted by our board of directors.

ResMed desires to attract, motivate and retain high quality employees who will enable ResMed to achieve its short- and long-term strategic goals and values. ResMed participates in a high-growth environment where substantial competition exists for skilled employees. ResMed's ability to attract, motivate and retain high caliber individuals depends in large part upon the compensation packages it offers.

ResMed believes that its executive compensation programs should reflect its financial and operating performance. In addition, individual contribution to ResMed's success should be supported and rewarded.

The 1993 Omnibus Budget Reconciliation Act (OBRA) became law in August 1993. Under the law, income tax deductions of publicly-traded companies in tax years beginning on or after January 1, 1994, may be limited to the extent total compensation (including base salary, annual bonus, stock option exercises, and non-qualified benefits) for certain executive officers exceeds \$1 million (less the amount of any excess parachute-payments as defined in Section 280G of the Internal Revenue Code of 1986) in any one year. Under OBRA, the deduction limit does not apply to payments that qualify as performance-based . To qualify as performance-based, compensation payments must be based solely on the achievement of objective performance goals and made under a plan that is administered by a committee of outside directors. In addition, the material terms of the plan must be disclosed to and approved by shareholders, and the Compensation Committee must certify that the performance goals were achieved before payments can be made. ResMed does not have any cash payment plans that qualify as performance-based ; however, option grants made under the 1997 Equity Participation Plan may qualify as performance-based compensation in part, so long as grants are made by the Compensation Committee at exercise prices that are equal to or greater than the fair market value of ResMed's common stock on the date of grant.

The Compensation Committee intends to design ResMed's compensation programs to conform to the OBRA legislation and related regulations so that total compensation paid to any employee will not exceed \$1 million in any one year, except for compensation payments that qualify as performance-based. ResMed may, however, pay compensation that is not deductible in limited circumstances when sound management of ResMed so requires.

ResMed's executive and key employee compensation program consists of a base salary component, a component providing the potential for an annual bonus based on relevant company performance and a component providing the opportunity to earn stock options linking the employee's long-term financial success to that of the shareholders.

Compensation

Base Salary

Officers are compensated with salary ranges that are generally based on similar positions in companies of comparable size and complexity to ResMed. In addition, the Compensation Committee uses industry compensation surveys, by outside consultants such as Mercer, Radford and

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Watson Wyatt, in determining compensation. The primary level of compensation is based on a combination of years of experience and performance. The salary of all executive officers is reviewed annually, with the amount of the increases based on factors such as company performance, general economic conditions, marketplace compensation trends and individual performance.

In fiscal year 2004, the Compensation Committee approved salary increases for the Named Officers as follows: Peter C. Farrell, 6%; Christopher G. Roberts, 5%; Adrian Smith 9%; Paul Eisen, 13%; David Pendarvis 15%; and Kieran Gallahue 0%.

Bonus

The second compensation component is a bonus program under ResMed's Bonus Plan. Bonuses are primarily based on ResMed's annual financial performance and secondarily on the performance of the individual. Target bonuses generally range from 40% to 60% of base salary. The measures of annual financial performance used in determining the amount of bonuses include sales, expenses, and profitability. For fiscal 2004, all three measures were used. The bonus plan allows for over-achievement of the target bonus based on a formula approved in advance by the Compensation Committee. The

formula is similar to that described below for the Chief Executive Officer, but with target criteria specific to each officer's role.

Stock Options

The third major component of the executive officers' compensation consists of stock options. The primary purpose of granting stock options is to link the officers' financial success to that of ResMed's shareholders. The Compensation Committee determines the exercise price of stock options at the time the option is granted, but generally the exercise price may not be less than the prevailing market price of ResMed's common stock as of the date of grant. Options become exercisable beginning 12 months after the date of grant and are exercisable for a maximum period of 10 years after the date of grant, as determined by the Compensation Committee.

Stock options were issued to ResMed's officers during fiscal year 2004 in accordance with the provisions of ResMed's 1997 Equity Participation Plan. The number of options granted by the Compensation Committee was based on company performance, the number of outstanding options available, salary and individual performance.

In order to continue to provide proper incentives to ResMed's employees and to further align the interests of the employees with its shareholders, in 2003 the Compensation Committee approved the adoption of an Employee Stock Purchase Plan, which is intended to qualify under Section 423 of the Internal Revenue Code of 1986, and which provides employees with the opportunity to purchase ResMed's common stock at a discount through payroll deductions. These purchases will initially occur through successive six-month offering periods under the plan. The Compensation Committee believes that this plan will provide an important incentive to employees to exert their best efforts on ResMed's behalf. The plan was approved by the shareholders and ratified at the 2003 Annual Meeting.

Chief Executive Officer Compensation

The compensation of our Chief Executive Officer is based on ResMed's performance and the important role Dr. Farrell plays within ResMed as its founder, Chairman and Chief Executive Officer, as a member of the boards of ResMed's principal subsidiaries and as an active participant in new product and corporate development.

The CEO's target bonus during fiscal year 2004 was 60% of his base salary. Fifty percent of the CEO's target bonus was based on achieving budgeted revenue targets and 50% was based on achieving budgeted group profitability, excluding non-recurring items such as gains from debt repurchases. Budget targets are determined by the board of directors at the beginning of each fiscal year. The linear bonus formula allowed for receiving 50% of the target bonus at 75% of the budget target, 100% of the target bonus at 100% of budget, 150% of the target bonus at 125% of budget, and so on. There was no bonus paid for achievement of less than 75% of budget.

COMPENSATION COMMITTEE OF RESMED'S BOARD OF DIRECTORS:

Christopher Bartlett (Chairman)

Donagh McCarthy

Gary Pace

The above report of the Compensation Committee will not be deemed to be incorporated by reference to any filing by ResMed under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that ResMed specifically incorporates it by reference.

Performance Graph

Set forth below is a line graph comparing the cumulative shareholder return on our common stock against the cumulative total return of the S&P 500 Index and the S&P Health Care Equipment and Supplies Index for the period commencing June 30, 1999, assuming an investment of \$100 on June 30, 1999.

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