

RESMED INC
Form 10-Q
October 31, 2012
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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 September 30, 2012

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)

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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 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 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

At October 24, 2012, there were 143,075,417 shares of Common Stock (\$0.004 par value) outstanding. This number excludes 27,947,610 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)

	September 30, 2012	June 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 890,629	\$ 809,541
Accounts receivable, net of allowance for doubtful accounts of \$8,009 and \$7,313 at September 30, 2012 and June 30, 2012, respectively	266,537	283,160
Inventories (note 3)	193,172	174,351
Deferred income taxes	24,754	19,590
Income taxes receivable	3,091	2,282
Prepaid expenses and other current assets	72,034	72,227
Total current assets	1,450,217	1,361,151
Non-current assets:		
Property, plant and equipment, net	438,357	434,363
Goodwill and other intangible assets, net (note 4)	332,946	311,036
Deferred income taxes	17,543	23,500
Other assets	5,596	7,819
Total non-current assets	794,442	776,718
Total assets	\$ 2,244,659	\$ 2,137,869
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	52,914	55,006
Accrued expenses	132,100	127,381
Deferred revenue	42,978	41,563
Income taxes payable	24,326	27,777
Deferred income taxes	660	1,073
Current portion of long-term debt (note 5)	53	52
Total current liabilities	253,031	252,852
Non-current liabilities:		
Deferred income taxes	9,167	8,843
Deferred revenue	14,301	14,384
Long-term debt (note 5)	265,785	250,783
Income taxes payable	3,452	3,380
Total non-current liabilities	292,705	277,390
Total liabilities	545,736	530,242

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Commitments and contingencies (notes 8)		
Stockholders' equity: (note 6)		
Preferred stock, \$0.01 par value, 2,000,000 shares authorized; none issued	-	-
Common stock, \$0.004 par value, 350,000,000 shares authorized; 171,005,577 issued and 143,057,967 outstanding at September 30, 2012 and 169,752,781 issued and 142,021,032 outstanding at June 30, 2012	572	568
Additional paid-in capital	933,249	899,717
Retained earnings	1,413,711	1,366,712
Treasury stock, at cost, 27,947,612 shares at September 30, 2012, and 27,731,749 shares at June 30, 2012	(903,922)	(895,826)
Accumulated other comprehensive income	255,313	236,456
Total stockholders' equity	1,698,923	1,607,627
Total liabilities and stockholders' equity	\$ 2,244,659	\$ 2,137,869

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 per share data)

	Three Months Ended September 30,	
	2012	2011
Net revenue	\$ 339,731	\$ 314,774
Cost of sales	131,083	129,720
Gross profit	208,648	185,054
Operating expenses:		
Selling, general and administrative	98,303	94,203
Research and development	27,220	26,206
Amortization of acquired intangible assets	2,636	3,771
Total operating expenses	128,159	124,180
Income from operations	80,489	60,874
Other income, net:		
Interest income, net	8,471	6,924
Other, net	1,941	(1,301)
Total other income, net	10,412	5,623
Income before income taxes	90,901	66,497
Income taxes	19,636	15,979
Net income	\$ 71,265	\$ 50,518
Basic earnings per share	\$ 0.50	\$ 0.34
Diluted earnings per share (note 2j)	\$ 0.49	\$ 0.33
Dividend declared per share (note 6)	\$ 0.17	\$ -
Basic shares outstanding (000 s)	142,651	150,366
Diluted shares outstanding (000 s)	146,055	154,051

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

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RESMED INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

(In US\$ thousands)

	Three Months Ended September 30,	
	2012	2011
Net income	\$ 71,265	\$ 50,518
Other comprehensive income (loss):		
Foreign currency translation gain (loss) adjustments	18,857	(124,221)
Total other comprehensive income (loss)	\$ 90,122	\$ (73,703)

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)

	Three Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 71,265	\$ 50,518
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,650	20,410
Stock-based compensation costs	7,921	7,205
Foreign currency revaluation	(1,741)	2,770
Gain on previously held equity interest resulting from business combination	-	(2,070)
Tax benefit from stock option exercises	(3,760)	(856)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	18,397	14,290
Inventories, net	(16,698)	4,243
Prepaid expenses, net deferred income taxes and other current assets	(2,487)	(31,036)
Accounts payable, accrued expenses and other liabilities	(13,293)	24,049
Net cash provided by operating activities	78,254	89,523
Cash flows from investing activities:		
Purchases of property, plant and equipment	(13,831)	(12,878)
Patent registration costs	(1,035)	(1,686)
Purchases of other intangible assets	-	(7,000)
Business acquisitions, net of cash acquired	(5,418)	(51,923)
Purchases of cost-method investments	-	(1,165)
Purchases of foreign currency options	(402)	-
Proceeds from exercise of foreign currency options	5,703	2,967
Net cash used in investing activities	(14,983)	(71,685)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	21,667	9,354
Tax benefit from stock option exercises	3,760	856
Purchases of treasury stock	(8,095)	(121,697)
Payment of business combination contingent consideration	(1,641)	-
Proceeds from borrowings	15,000	80,000
Repayment of borrowings	(158)	(52,456)
Dividend paid	(22,843)	-
Net cash provided by (used in) financing activities	7,690	(83,943)
Effect of exchange rate changes on cash	10,127	(59,099)
Net increase in cash and cash equivalents	81,088	(125,204)
Cash and cash equivalents at beginning of period	809,541	735,267

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Cash and cash equivalents at end of period	\$ 890,629	\$ 610,063
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 24,565	\$ 4,294
Interest paid	\$ 1,363	\$ 706
Fair value of assets acquired, excluding cash	\$ 7,770	\$ 24,421
Liabilities assumed	(2,836)	(4,563)
Goodwill on acquisition	13,584	51,532
Fair value of contingent consideration	(13,100)	(6,850)
Total purchase price, excluding contingent consideration	5,418	64,540
Less: Consideration not paid in the current period	-	(12,617)
Cash paid for acquisition	\$ 5,418	\$ 51,923

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 as a 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, Germany, Malaysia and the United States. Major distribution and sales sites are located in the United States, Germany, France, the United Kingdom, Switzerland, Australia, Japan, Norway and Sweden.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. GAAP 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 months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending June 30, 2013.

The condensed consolidated financial statements for the three months ended September 30, 2012 and 2011 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, 2012.

(2) Summary of Significant Accounting Policies

(a) Basis of Consolidation

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management estimates and assumptions that affect amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from management's estimates.

(b) Revenue Recognition

We generally record revenue on product sales at the time of shipment, when title transfers to the customer. We do not record revenue on product sales which require customer acceptance until we receive acceptance. We initially defer service revenue received in advance from service contracts and recognize that deferred revenue ratably over the life of the service contract. We initially defer revenue we receive in advance from rental unit contracts and recognize that deferred revenue ratably over the life of the rental contract. Otherwise, we recognize revenue from rental unit contracts ratably over the life of the rental contract. We include in revenue freight charges we bill to customers. We charge all freight-related expenses to cost of sales. 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.

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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

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. We record the costs of all such programs as an adjustment to revenue. Our products are predominantly therapy-based equipment and require no installation. Therefore, we have no significant installation obligations.

(c) Cash and Cash Equivalents

Cash equivalents include certificates of deposit and other highly liquid investments and we state them at cost, which approximates market. We consider investments with original maturities of 90 days or less to be cash equivalents for purposes of the consolidated statements of cash flows.

(d) Inventories

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

(e) Property, Plant and Equipment

We record property, plant and equipment, including rental equipment at cost. We compute depreciation expense using the straight-line method over the estimated useful lives of the assets. Useful lives are generally two to ten years except for buildings which are depreciated over an estimated useful life of forty years and leasehold improvements, which we amortize over the lease term. We charge maintenance and repairs to expense as we incur them.

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Item 1

RESMED INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

(2) Summary of Significant Accounting Policies, Continued

(f) Intangible Assets

We capitalize the registration costs for new patents and amortize the costs over the estimated useful life of the patent, which is generally five years. If a patent is superseded or a product is retired, any unamortized costs are written off immediately.

We amortize all of our other intangible assets on a straight-line basis over their estimated useful lives, which range from two 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. We have not identified any impairment of intangible assets during any of the periods presented.

(g) Goodwill

We conducted our annual review for goodwill impairment during the final quarter of fiscal 2012. In conducting our review of goodwill impairment, we identified 12 reporting units, being components of our operating segment. The fair value for each reporting unit was determined based on estimated discounted cash flows. Our goodwill impairment review 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.

The results of Step 1 of our annual review indicated that no impaired goodwill exists as the fair value for each reporting unit significantly exceeded its carrying value.

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

(2) Summary of Significant Accounting Policies, Continued

(h) 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. We translate assets and liabilities of non-U.S. subsidiaries whose functional currencies are other than the U.S. dollar at period end exchange rates, but translate revenue and expense transactions at average exchange rates for the period. We recognize cumulative translation adjustments as part of comprehensive income, as detailed in the condensed consolidated statement of comprehensive income, and include those adjustments in accumulated other comprehensive income in the condensed consolidated balance sheets until the relevant subsidiary is sold or substantially or completely liquidated. We reflect gains and losses on transactions denominated in other than the functional currency of an entity in our results of operations.

(i) Research and Development

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

(j) Earnings Per Share

We compute basic earnings per share 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 outstanding stock options and restricted stock units not included in the computation of diluted earnings per share were 591,435 and 930,468 for the three months ended September 30, 2012 and 2011, respectively, as the effect would have been anti-dilutive. Basic and diluted earnings per share for the three months ended September 30, 2012 and 2011 are calculated as follows (in thousands except per share data):

	Three Months Ended	
	September 30,	
	2012	2011
Numerator:		
Net Income, used in calculating diluted earnings per share	\$ 71,265	\$ 50,518
Denominator:		
Basic weighted-average common shares outstanding	142,651	150,366
Effect of dilutive securities:		
Stock options and restricted stock units	3,404	3,685
Diluted weighted average shares	146,055	154,051
Basic earnings per share	\$ 0.50	\$ 0.34
Diluted earnings per share	\$ 0.49	\$ 0.33

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RESMED INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

(2) Summary of Significant Accounting Policies, Continued

(k) 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 its 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.

(l) 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 and Singapore manufacturing activities. We enter into foreign currency option contracts to hedge anticipated sales and manufacturing costs, principally denominated in Australian dollars, Singapore dollars and euros. The terms of such foreign currency option contracts generally do not exceed three years.

We have determined our hedge program to be a non-effective hedge as defined under the FASB issued authoritative guidance. We record the foreign currency derivatives portfolio at fair value and include it in other assets in our condensed consolidated balance sheets. We do not offset the fair value amounts recognized for foreign currency derivatives. We classify purchases of foreign currency derivatives and proceeds received from the exercise of foreign currency derivatives as an investing activity within our consolidated statements of cash flows.

We record all movements in the fair value of the foreign currency derivatives within other income, net in our condensed consolidated statements of income.

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

(2) Summary of Significant Accounting Policies, Continued

(m) 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. We measure deferred tax assets and liabilities using the enacted tax rates we expect 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.

(n) Investment Securities

Management determines the appropriate classification of our investments in debt and equity securities at the time of purchase and re-evaluates such determination at each balance sheet date. We classify as available-for-sale debt securities for which we do not intend or are not able to hold to maturity. We carry securities available-for-sale at fair value, with the unrealized gains and losses, net of tax, reported in accumulated other comprehensive income.

At September 30, 2012 and June 30, 2012 there were no investment securities.

(o) Warranty

Estimated future warranty costs related to certain products are charged to operations in the period in which the related revenue is recognized. We include the liability for warranty costs in accrued expenses in our condensed consolidated balance sheets. Changes in the liability for warranty costs for the three months ended September 30, 2012 and 2011 are as follows (in thousands):

	Three Months Ended September 30,	
	2012	2011
Balance at the beginning of the period	\$ 17,018	\$ 19,032
Warranty accruals for the period	3,251	4,506
Warranty costs incurred for the period	(2,478)	(3,533)
Foreign currency translation adjustments	23	(1,940)
Balance at the end of the period	\$ 17,814	\$ 18,065

(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 recovered. 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 assets are considered to be impaired, we recognize as the impairment the amount by which the carrying amount of the assets exceeds the fair value of the assets. We report

assets to be disposed of at the lower of the carrying amount or fair value less costs to sell.

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Item 1

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

(2) Summary of Significant Accounting Policies, Continued

(q) 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 expire seven years after the grant date and vest over one or four years. We granted the options with the exercise prices 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 grant date. We estimate the fair value of stock options and purchase rights granted under the ESPP using a Black-Scholes valuation model. The fair value of restricted stock units is equal to the market value of the underlying shares as determined at the grant date. We recognize the fair value as compensation expense using the straight-line method over the service period for awards expected to vest.

We estimate the fair value of stock options granted under our stock option plans and purchase rights granted under the ESPP using the following assumptions:

	Three Months Ended	
	September 30,	
	2012	2011
Stock options:		
Weighted average grant date fair value	\$ 8.01	\$ 9.22
Weighted average risk-free interest rate	0.69%	1.40%
Expected option life in years	5.29	5.29
Dividend yield	2%	0%
Expected volatility	34%	31%
ESPP purchase rights:		
Weighted average risk-free interest rate	0.15%	0.10%
Expected option life in years	6 months	6 months
Expected volatility	30%	24%

The risk-free interest rate assumption we use is based upon the U.S. Treasury yield curve at the time of grant appropriate for the expected life of the awards. Expected volatilities are based on a combination of historical volatilities of our stock and the implied volatilities from tradeable options of our stock corresponding to the expected term of the options. We use a combination of the historic and implied volatilities as the addition of the implied volatility is more representative of our future stock price trends. While there is a tradeable 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. We use historical rates by employee groups, to determine the estimated period of time that employees to hold their stock options.

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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

(r) Recently Issued Accounting Pronouncement

In September 2011, the Financial Accounting Standards Board (FASB) issued authoritative guidance intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. Under the amendments in this standard, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this standard in fiscal year 2013 has not had and is not expected to have a material impact on our condensed consolidated financial statements.

In June 2011, the FASB issued authoritative guidance with respect to the presentation of other comprehensive income in financial statements. The main provisions of the standard provide that an entity that reports other comprehensive income has the option to present comprehensive income in either a single statement or in a two-statement approach. A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income. In the two- statement approach, an entity must present the components of net income and total net income in the first statement, followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The adoption of this standard in fiscal year 2013 affected the presentation of our other comprehensive income but not our financial position or results of operations.

(3) Inventories

Inventories were comprised of the following at September 30, 2012 and June 30, 2012 (in thousands):

	September 30, 2012	June 30, 2012
Raw materials	\$ 62,309	\$ 65,518
Work in progress	2,751	1,692
Finished goods	128,112	107,141
Total inventories	\$ 193,172	\$ 174,351

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PART I FINANCIAL INFORMATION

Item 1

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

(4) Goodwill and Other Intangible Assets, net

Goodwill

Changes in the carrying amount of goodwill for the three months ended September 30, 2012, and 2011 were as follows (in thousands):

	Three Months Ended September 30,	
	2012	2011
Balance at the beginning of the period	\$ 256,209	\$ 235,487
Business acquisition	13,584	51,532
Foreign currency translation adjustments	3,487	(19,331)
Balance at the end of the period	\$ 273,280	\$ 267,688

Refer to Note 10 of the condensed consolidated financial statements for further details of the acquisition made during the period.

Other Intangibles Assets

Other intangible assets are comprised of the following as of September 30, 2012, and June 30, 2012 (in thousands):

	September 30, 2012	June 30, 2012
Developed/core product technology	\$ 75,511	\$ 67,263
Accumulated amortization	(41,201)	(39,036)
Developed/core product technology, net	34,310	28,227
Trade names	2,669	2,628
Accumulated amortization	(2,375)	(2,276)
Trade names, net	294	352
Non compete agreements	2,350	2,321
Accumulated amortization	(1,041)	(886)
Non compete agreements, net	1,309	1,435
Customer relationships	23,166	22,783
Accumulated amortization	(15,214)	(14,097)
Customer relationships, net	7,952	8,686
Patents	60,157	58,389
Accumulated amortization	(44,356)	(42,262)
Patents, net	15,801	16,127
Total other intangibles, net	\$ 59,666	\$ 54,827

Intangible assets consist of patents, customer relationships, trade names, non-compete agreements and developed/core product technology. We amortize intangible assets over the estimated useful life of the assets, generally between two and nine years. There are no expected residual values related to these intangible assets. Refer to Note 10 of the condensed consolidated financial statements for further details of the acquisition made during the period.

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RESMED INC. AND SUBSIDIARIES**Notes to the Condensed Consolidated Financial Statements****(Unaudited)****(5) Long-Term Debt**

Long-term debt at September 30, 2012 and June 30, 2012 consists of the following (in thousands):

	September 30, 2012	June 30, 2012
Current long-term debt	\$ 53	\$ 52
Non-current long-term debt	265,785	250,783
Total long-term debt	\$ 265,838	\$ 250,835

Credit Facility

During the year ended June 30, 2011, we entered into a credit agreement with lenders, including Union Bank, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, HSBC Bank USA, National Association, as Syndication Agent and Union Bank, N.A., HSBC Bank USA, National Association, Commonwealth Bank of Australia and Wells Fargo Bank, N.A. The credit agreement provides a \$300 million three-year revolving credit facility, with an uncommitted option to increase the credit facility by an additional \$100 million. The credit facility also includes a \$10 million sublimit for letters of credit. The credit facility terminates on February 10, 2014, at which time all unpaid principal and interest under the loans must be repaid. The outstanding principal amount due under the credit facility will bear interest at a rate equal to, at our option, either (i) LIBOR plus 1.5% to 2.0% (depending on the applicable leverage ratio) or (ii) a base rate, as defined in the credit agreement, plus 0.5% to 1.0% (depending on the applicable leverage ratio). Commitment fees of 0.25% to 0.375% (depending on the applicable leverage ratio) apply on the unused portion of the credit facility. When we executed the credit agreement, we used a portion of the credit facility's initial funding proceeds to repay the outstanding balance under our previously existing revolving credit facility with Union Bank, N.A., which was then terminated.

Our obligations under the credit agreement are secured by (a) the corporate stock we hold in our subsidiaries ResMed Corp. and ResMed Motor Technologies Inc. (ResMed Motor), and (b) up to 65% of the ownership interests we hold in our subsidiary ResMed EAP Holdings LLC (ResMed EAP). Our obligations under the credit agreement are also guaranteed by our subsidiaries ResMed Corp and ResMed Motor. The credit agreement contains customary covenants, including certain financial covenants and an obligation that we maintain certain financial ratios, including a maximum ratio of Funded Debt to EBITDA (each as defined in the credit agreement), an interest coverage ratio and a maximum amount of annual capital expenditures. The entire principal amount of the credit facility and any accrued but unpaid interest may be declared immediately due and payable if an event of default occurs. Events of default include failure to make payments when due, a default in the performance of any covenants in the credit agreement or related documents or certain changes of control of us or our subsidiaries ResMed Corp, ResMed Motor, ResMed Limited, ResMed Holdings Ltd/LLC or ResMed EAP.

On January 25, 2012, we entered into a first amendment to the credit agreement. The amendment increases, from \$300 million to \$400 million, the maximum principal amount that can be borrowed on a revolving basis under the credit agreement, subject to customary conditions.

At September 30, 2012, there was \$265.0 million outstanding under the credit agreement.

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RESMED INC. AND SUBSIDIARIES**Notes to the Condensed Consolidated Financial Statements****(Unaudited)****(6) Stockholders' Equity**

Common Stock. On August 24, 2011, our board of directors approved a new share repurchase program, authorizing us to acquire up to an aggregate of 20.0 million shares of ResMed Inc. common stock. The program allows us to repurchase shares of our common stock from time to time for cash in the open market, or in negotiated or block transactions, as market and business conditions warrant. This program canceled and replaced our previous share repurchase program authorized on May 27, 2009 pursuant to which we had repurchased 10.0 million shares. These were in addition to the 6.6 million shares repurchased under an earlier program authorized on June 6, 2002. The new program authorizes us to purchase in addition to the shares we repurchased under our previous programs. There is no expiration date for this program. All share repurchases since August 24, 2011 have been executed in accordance with this program.

During the three months ended September 30, 2012, we repurchased 0.2 million shares at a cost of \$8.1 million. Since the inception of our share repurchase programs and through September 30, 2012, we have repurchased a total of 27.9 million shares at a cost of \$903.9 million. Shares that are repurchased are classified as treasury stock pending future use and reduce the number of shares outstanding used in calculating earnings per share. At September 30, 2012, 8.6 million additional shares can be repurchased under the approved share repurchase program.

Preferred Stock. In April 1997, the board of directors authorized 2,000,000 shares of \$0.01 par value preferred stock. No such shares were issued or outstanding at September 30, 2012 and June 30, 2012.

Stock Options and Restricted Stock Units. We have granted stock options and restricted stock units to personnel, including officers and directors, in accordance with the 2009 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 have granted the options with an exercise price equal to the market value as determined at the date of grant.

The maximum number of shares of our common stock authorized for issuance under the 2009 Plan is 35.5 million shares. The number of securities remaining available for future issuance under the 2009 Plan at September 30, 2012 is 14.6 million. The number of shares of our common stock available for issuance under the 2009 Plan will be reduced by (i) two (2.0) shares for each one share of common stock delivered in settlement of any full-value award, which is any award other than a stock option, stock appreciation right or other award for which the holder pays the intrinsic value and (ii) one share for each share of common stock delivered in settlement of all other awards. The maximum number of shares, which may be subject to awards granted under the 2009 Plan to any individual during any calendar year, may not exceed 3 million shares of our common stock (except in a participant's initial year of hiring up to 4.5 million shares of our common stock may be granted).

At September 30, 2012, there was \$55.3 million in unrecognized compensation costs related to unvested stock-based compensation arrangements. This is expected to be recognized over a weighted average period of 2.6 years. The aggregate intrinsic value of the stock-based compensation arrangements outstanding and exercisable at September 30, 2012 was \$243.8 million and \$115.8 million, respectively. The aggregate intrinsic value of the options exercised during the three months ended September 30, 2012 and 2011, was \$21.7 million and \$5.6 million, respectively.

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

(6) Stockholders' Equity, Continued

The following table summarizes option activity during the three months ended September 30, 2012:

	2012	Weighted Average Exercise Price	Weighted Average Remaining Term to Vest in Years
Outstanding at beginning of period	9,363,720	\$ 20.52	3.3 years
Granted	6,000	31.61	
Exercised	(1,234,325)	18.04	
Forfeited	(34,700)	23.17	
Outstanding at end of period	8,100,695	\$ 20.89	3.2 years
Exercise price range of granted options	31.61		
Options exercisable at end of period	5,419,413	\$ 19.11	

The following table summarizes the activity of restricted stock units during the three months ended September 30, 2012:

	2012	Weighted Average Grant- Date Fair Value	Weighted Average Remaining Term to Vest in Years
Outstanding at beginning of period	2,160,873	\$ 29.13	1.6 years
Granted	8,214	31.28	
Vested	(29,359)	30.67	
Forfeited	(33,860)	28.95	
Outstanding at end of period	2,105,868	\$ 29.12	1.4 years

Employee Stock Purchase Plan (the ESPP). The ESPP was approved at the annual meeting of our stockholders on November 18, 2009, as an amendment to the previously approved employee stock purchase plan. Under the ESPP, we offer participants the right to purchase shares of our common stock at a discount during successive offering periods. Each offering period under the ESPP will be for a period of time determined by the board of directors' compensation committee of no less than 3 months and no more than 27 months. The purchase price for our common stock under the ESPP will be the lower of 85% of the fair market value of our common stock on the date of grant or 85% of the fair market value of our common stock on the date of purchase. An individual participant cannot subscribe for more than \$25,000 in common stock during any calendar year. At September 30, 2012, the number of shares remaining available for future issuance under the ESPP is 0.4 million shares.

During the three months ended September 30, 2012 and 2011, we recognized \$0.8 million and \$0.5 million, respectively, of stock-based compensation expense associated with the ESPP.

Dividend. On August 2, 2012, we announced that our board of directors declared a cash dividend of US\$0.17 per share of outstanding common stock. We paid the dividend in U.S. currency to holders of our common stock trading on the New York Stock Exchange (the NYSE), payable on September 28, 2012, to NYSE stockholders of record as of close of business on September 7, 2012. We paid the dividend to holders of Chess Depository Instruments (CDIs) trading on the Australian Stock Exchange, payable on September 28, 2012 to CDI holders as of September 7, 2012, at an equivalent amount in Australian currency, based on the exchange rate on September 7, 2012, and reflecting the 10:1 ratio between CDIs and NYSE shares. In the three months ended September 30, 2012, we paid a total of \$22.8 million in dividends for CDIs and NYSE shares.

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RESMED INC. AND SUBSIDIARIES**Notes to the Condensed Consolidated Financial Statements****(Unaudited)****(7) Fair Value Measurements**

In determining the fair value measurements of our financial assets and liabilities, we consider the principal and most advantageous market in which we transact and consider assumptions that market participants would use when pricing the financial asset or liability. We maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The hierarchies of inputs are as follows:

Level 1: Input prices quoted in an active market for identical financial assets or liabilities;

Level 2: Inputs other than prices quoted in Level 1, such as prices quoted for similar financial assets and liabilities in active markets, prices for identical assets and liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data; and

Level 3: Input prices quoted that are significant to the fair value of the financial assets or liabilities which are not observable nor supported by an active market.

The following table summarizes our financial assets and liabilities, as at September 30, 2012 and June 30, 2012, using the valuation input hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total
Balances at September 30, 2012				
Foreign currency options	\$ -	\$ 10,706	\$ -	\$ 10,706
Contingent consideration	\$ -	\$ -	\$ (16,286)	\$ (16,286)
Balances at June 30, 2012				
Foreign currency options	\$ -	\$ 14,631	\$ -	\$ 14,631
Contingent consideration	\$ -	\$ -	\$ (5,024)	\$ (5,024)

We determine the fair value of our financial assets as follows:

Foreign currency options These financial instruments are valued using third-party valuation models based on market observable inputs, including interest rate curves, on-market spot currency prices, volatilities and credit risk.

Contingent consideration These liabilities include the fair value estimates of additional future payments that may be required for some of our previous business acquisitions based on the achievement of certain performance milestones. Each potential future payment is valued using the estimated probability of achieving each milestone, which is then discounted to present value.

We did not have any significant non-financial assets or liabilities measured at fair value on September 30, 2012 or June 30, 2012.

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RESMED INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

(8) Contingencies and Legal Actions

Contingent Obligations Under Recourse Provisions

We use independent leasing companies to provide financing to certain customers for the purchase of our products. In some cases, we are contingently liable in the event of a customer default, to the leasing companies, within certain limits, for unpaid installment receivables transferred to the leasing companies. The gross amount of receivables sold during the three months ended September 30, 2012 and 2011, amounted to \$0.5 million and \$3.2 million, respectively. The maximum potential amount of contingent liability under these arrangements at September 30, 2012 and June 30, 2012 were \$1.2 million, and \$2.1 million, respectively. The recourse liability recognized by us at September 30, 2012 and June 30, 2012, in relation to these arrangements was \$0.2 million and \$0.6 million, respectively.

Litigation

In the normal course of business, we are subject to routine litigation incidental to our business. While the results of this litigation cannot be predicted with certainty, we believe that their final outcome will not, individually or in aggregate, have a material adverse effect on our consolidated financial statements taken as a whole.

In February 2007, the University of Sydney commenced legal action in the Federal Court of Australia against us, claiming breach of a license agreement and infringement of certain intellectual property. The claim has been amended to include an allegation of breach of confidentiality. The university is seeking various types of relief, including an injunction against manufacturing, supplying, offering for sale, selling or exporting certain mask devices, payment of license fees, damages or an account of profits, interest, costs and declaration of a constructive trust over and assignment of certain intellectual property. In October 2007, we filed a defense denying the university's claim, as well as a cross-claim against the university seeking an order for rectification of the contract and alleging the university violated the Australian Trade Practices Act. The matter is ongoing. Given the inherent uncertainty and unpredictability of litigation and due to the status of this legal action, no range of loss or possible loss can be reasonably estimated at this time. However, we do not expect the outcome of this matter to have a material adverse effect on our consolidated financial statements when taken as a whole.

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RESMED INC. AND SUBSIDIARIES**Notes to the Condensed Consolidated Financial Statements****(Unaudited)****(9) Derivative Instruments and Hedging Activities**

We transact business in various foreign currencies, including a number of major European currencies as well as the Australian and Singapore dollars. We have significant foreign currency exposure through both our Australian and Singaporean manufacturing activities, and international sales operations. We have established a foreign currency hedging program using purchased currency options and forward contracts to hedge foreign-currency-denominated financial assets, liabilities and manufacturing cash flows. The terms of such foreign currency hedging contracts generally do not exceed three years. The goal of this hedging program is to economically manage the financial impact of foreign currency exposures denominated in Euros, Australian and Singapore dollars. Under this program, increases or decreases in our foreign currency denominated financial assets, liabilities, and firm commitments are partially offset by gains and losses on the hedging instruments.

We do not designate these foreign currency contracts as hedges. We have determined our hedge program to be a non-effective hedge as defined under the FASB issued authoritative guidance. All movements in the fair value of the foreign currency instruments are recorded within other income, net in our consolidated statements of income. We do not enter into financial instruments for trading or speculative purposes.

We held foreign currency instruments with notional amounts totaling \$395.8 million and \$334.7 million at September 30, 2012 and June 30, 2012, respectively, to hedge foreign currency fluctuations. These contracts mature at various dates prior to September 30, 2015.

The fair value and effect of derivative instruments on our condensed consolidated financial statements were as follows (in thousands):

Derivatives Not Designated as Hedging Instruments	Asset Derivatives Balance Sheet Location	September 30, 2012 Fair Value	Location of gain recognized in Income on Derivative	Gain recognized in Income on Derivative Three Months Ended September 30, 2012
Foreign Exchange Contracts	Other Assets	\$ 10,706	Other, net	\$ 1,083
Net gain recognized, on foreign currency instruments, during the three months ended September 30, 2012 was \$1.1 million. Net loss recognized, on foreign currency instruments, during the three months ended September 30, 2011 was \$5.8 million.				

We are exposed to credit-related losses in the event of non-performance by counter parties to financial instruments. The credit exposure of foreign currency derivatives at September 30, 2012 and June 30, 2012 was \$10.7 million and \$14.6 million, respectively, which represents the positive fair value of our foreign currency derivatives. These values are included in the current and non-current balances of other assets on the consolidated balance sheets. We minimize counterparty credit risk by entering into derivative transactions with major financial institutions and we do not expect material losses as a result of default by our counterparties.

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RESMED INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

(10) Acquisition of Business

On July 20, 2012 we acquired 100% of the outstanding shares of Umbian Inc., an innovative data services technology provider, based in Nova Scotia, Canada. Umbian offers a comprehensive patient compliance management solution, which monitors continuous positive airway pressure (CPAP) devices and provides a suite of interactive follow-up services for healthcare providers. The initial purchase price was \$5.6 million with an additional potential earn-out payment of up to \$35.4 million based on the achievement of certain performance milestones following the acquisition, of which we have recognized a liability of \$13.1 million. The acquisition has been accounted for as a business combination using purchase accounting and is included in our consolidated financial statements from July 20, 2012. The acquisition is not considered a material business combination and was funded through cash on-hand. We have not incurred any material acquisition related costs.

The cost of the acquisition has been allocated to the assets acquired and liabilities assumed based on estimates of their fair values at the date of acquisition. We have not yet completed the purchase price allocation as certain appraisals associated with the valuation of certain intangible assets and contingent consideration are not yet complete. We do not believe that the completion of this work will materially modify the preliminary purchase price allocation. We expect to complete our purchase price allocation in the quarter ending December 31, 2012. As part of the preliminary purchase price allocation, we recognized an intangible asset relating to developed technology of \$7.3 million and goodwill of \$13.6 million. The goodwill recognized as part of this acquisition mainly represents the synergies that are unique to our combined businesses and the potential for new products and services to be developed in the future.

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RESMED INC. AND SUBSIDIARIES

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

Special Note Regarding Forward-Looking Statements

This report contains or may contain certain forward-looking statements and information that are based on the beliefs of our management as well as estimates and assumptions made by, and information currently available to, our management. All statements other than statements regarding historical facts are forward-looking statements. The words believe, expect, anticipate, will continue, will, estimate, plan, future and other similar expressions, and negative statements of such expressions, generally identify forward-looking statements, including, in particular, statements regarding the development and approval of new products and product applications, market expansion, pending litigation and the development of new markets for our products, such as cardiovascular and stroke markets. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on these forward-looking statements. Such forward-looking statements reflect the views of our management at the time such statements are made and are subject to a number of risks, uncertainties, estimates and assumptions, including, without limitation, and in addition to those identified in the text surrounding such statements, those identified in our annual report on Form 10-K for the fiscal year ended June 30, 2012 and elsewhere in this report.

In addition, important factors to consider in evaluating such forward-looking statements include changes or developments in healthcare reform, social, economic, market, legal or regulatory circumstances, changes in our business or growth strategy or an inability to execute our strategy due to changes in our industry or the economy generally, the emergence of new or growing competitors, the actions or omissions of third parties, including suppliers, customers, competitors and governmental authorities and various other factors. Should any one or more of these risks or uncertainties materialize, or underlying estimates or assumptions prove incorrect, actual results may vary significantly from those expressed in such forward-looking statements, and there can be no assurance that the forward-looking statements contained in this report will in fact occur.

Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described in our annual report on Form 10-K, in addition to the other cautionary statements and risks described elsewhere in this report and in our other filings with the SEC, including our subsequent reports on Forms 10-Q and 8-K. These risks and uncertainties are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs with material adverse effects on us, our business, financial condition and results of operations could be seriously harmed. In that event, the market price for our common stock will likely decline and you may lose all or part of your investment.

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PART I FINANCIAL INFORMATION

Item 2

RESMED INC. AND SUBSIDIARIES**Management's Discussion and Analysis of Financial Condition and Results of Operations****Overview**

The following is an overview of our results of operations for the three months ended September 30, 2012. Management's discussion and analysis (MD&A) of financial condition and results of operations is intended to help the reader understand the results of operations and financial condition of ResMed Inc. MD&A is provided as a supplement to, and should be read in conjunction with condensed consolidated financial statements and notes, included in this report.

We are a leading developer, manufacturer and distributor of medical equipment for treating, diagnosing, and managing sleep-disordered breathing (SDB) and other respiratory disorders. During the three months ended September 30, 2012, we continued our efforts to build awareness of the consequences of untreated SDB, and to grow our business in this market. In our efforts, we have attempted to raise awareness through market and clinical initiatives highlighting the relationship between sleep-disordered breathing/obstructive sleep apnea and co-morbidities, such as cardiac disease, diabetes, hypertension and obesity, as well as the dangers of sleep apnea in regard to occupational health and safety, especially in the transportation industry.

We are committed to ongoing investment in research and development and product enhancements. During the three months ended September 30, 2012, we invested \$27.2 million on research and development activities. Since the development of continuous positive airway pressure (CPAP) therapy, we have developed a number of innovative products for SDB and other respiratory disorders including airflow generators, diagnostic products, mask systems, headgear, compliance monitoring software and other accessories. Our new product release schedule remains active across both our mask and flow generator categories. We are taking steps to increase awareness of the health dangers of sleep-disordered breathing by sponsoring educational programs targeted at the primary care physician community. We believe these efforts should further increase awareness of both doctors and patients about the relationship between sleep-disordered breathing, obstructive sleep apnea and co-morbidities such as cardiac disease, diabetes, hypertension and obesity. We believe these efforts should also support our efforts to inform the community of the dangers of sleep apnea in occupational health and safety, especially in the transport industry.

During the three months ended September 30, 2012, our net revenue increased by 8% when compared to the three months ended September 30, 2011. Gross margin was 61.4% for the three months ended September 30, 2012 compared to 58.8% for the three months ended September 30, 2011. Diluted earnings per share for the three months ended September 30, 2012 was \$0.49 per share, compared to \$0.33 per share for the three months ended September 30, 2011.

At September 30, 2012 our cash and cash equivalents totaled \$890.6 million, our total assets were \$2.2 billion and our stockholders' equity was \$1.7 billion.

In order to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency fluctuations, we provide certain financial information on a constant currency basis, which is in addition to the actual financial information presented. In order to calculate our constant currency information, we translate the current period financial information using the foreign currency exchange rates that were in effect during the previous comparable period. However, constant currency measures should not be considered in isolation or as an alternative to U.S. dollars measures that reflect current period exchange rates, or to other financial measures calculated and presented in accordance with U.S. GAAP.

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RESMED INC. AND SUBSIDIARIES**Management's Discussion and Analysis of Financial Condition and Results of Operations****Net Revenue**

Net revenue increased for the three months ended September 30, 2012 to \$339.7 million compared to \$314.8 million for the three months ended September 30, 2011, an increase of \$25.0 million or 8%. The increase in net revenue is primarily attributable to the growth in our flow generator and masks and accessories sales. Movements in international currencies against the U.S. dollar negatively impacted revenues by approximately \$12.6 million during the three months ended September 30, 2012. Excluding the impact of unfavorable foreign currency movements, net revenue for the three months ended September 30, 2012 increased by 12% compared to the three months ended September 30, 2011.

Net revenue in North and Latin America increased for the three months ended September 30, 2012 to \$194.4 million from \$169.3 million for the three months ended September 30, 2011, an increase of 15%. We believe this increase primarily reflects growth in the overall sleep-disordered breathing market and growth generated from our recent product releases. Net international revenue, which includes all markets outside North and Latin America, for the three months ended September 30, 2012, was \$145.4 million compared to \$145.5 million for the three months ended September 30, 2011. Excluding the negative impact on revenue of movements in international currencies, international revenue grew by 9% compared to the three months ended September 30, 2011. We believe this increase in revenue outside North and Latin America primarily reflects growth in the overall sleep-disordered breathing market and growth generated from our recent product releases.

Net revenue from the sales of flow generators, including humidifiers, for the three months ended September 30, 2012 totaled \$181.5 million, an increase of 6% compared to the three months ended September 30, 2011 of \$171.0 million, including an increase of 17% in North and Latin America and a decrease of 2% internationally. Net revenue from the sales of masks and other accessories for the three months ended September 30, 2012 totaled \$158.3 million, an increase of 10% compared to the three months ended September 30, 2011 of \$143.8 million, including increases of 13% in North and Latin America and 4% internationally. Excluding the negative impact on revenue of unfavorable currency movements, international revenue increased by 7% and 13% for flow generators and masks and other accessories, respectively, for the three months ended September 30, 2012 compared to the three months ended September 30, 2011. We believe the increases primarily reflect growth in the overall sleep-disordered breathing market and contributions from new products.

The following table summarizes the percentage movements in our net revenue for the three months ended September 30, 2012 compared to the three months ended September 30, 2011:

	North and Latin America	International	Total	International (Constant Currency) *	Total (Constant Currency)
Flow generators	17%	-2%	6%	7%	11%
Masks and other accessories	13%	4%	10%	13%	13%
Total	15%	0%	8%	9%	12%

* Constant currency numbers exclude the impact of movements in international currencies.

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RESMED INC. AND SUBSIDIARIES

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

Gross Profit

Gross profit increased for the three months ended September 30, 2012 to \$208.6 million from \$185.1 million for the three months ended September 30, 2011, an increase of \$23.6 million or 13%. Gross profit as a percentage of net revenue for the three months ended September 30, 2012 increased to 61.4% from 58.8% for the three months ended September 30, 2011. The improvement in gross margins for the three months ended September 30, 2012 is primarily due to manufacturing and logistics improvements and favorable change in product mix, partially offset by declines in our average selling prices.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased for the three months ended September 30, 2012 to \$98.3 million from \$94.2 million for the three months ended September 30, 2011, an increase of \$4.1 million or 4%. Selling, general and administrative expenses, as a percentage of net revenue, were 28.9% for the three months ended September 30, 2012 compared to 29.9% for the three months ended September 30, 2011.

The increase in selling, general and administrative expenses was primarily due to an increase in the number of sales and administrative personnel to support our growth and other expenses related to the increase in our sales. As a percentage of net revenue, we expect our future selling, general and administrative expense to be in the range of 28% to 29%. The increase in selling, general and administrative expenses was favorably impacted by the movement of international currencies against the U.S. dollar which decreased our expenses by approximately \$8.2 million for the three months ended September 30, 2012, as reported in U.S. dollars.