RESPIRONICS INC
Form 10-Q
February 14, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

X Quarterly Report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended December 31, 2000 or

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

Commission File No. 000-16723

RESPIRONICS, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

As of January 31, 2001, there were 33,813,445 shares of Common Stock of the registrant outstanding, of which 3,640,289 were held in treasury.

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RESPIRONICS, INC.

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Independent Accountants' Review Report

Board of Directors
Respironics, Inc. and Subsidiaries

We have reviewed the accompanying condensed consolidated balance sheet of Respironics, Inc. and Subsidiaries as of December 31, 2000, and the related condensed consolidated statements of operations for the three-month and six-month periods ended December 31, 2000 and 1999, and the condensed consolidated statements of cash flows for the six-month periods ended December 31, 2000 and 1999. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Respironics, Inc. and Subsidiaries as of June 30, 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended not presented herein and in our report dated July 25, 2000, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of June 30, 2000, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania
January 23, 2001

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

RESPIRONICS, INC. AND SUBSIDIARIES

	December 31 2000	June 20
ASSETS		
CURRENT ASSETS		
Cash and short-term investments	$ 24,068,314	$ 19,
Trade accounts receivable, less allowance for doubtful accounts of $17,076,000 and $17,975,000	100,091,851	96,
Inventories	73,942,867	67,
Prepaid expenses and other	8,214,777	6,
Deferred income tax benefits	18,229,782	18,
TOTAL CURRENT ASSETS	224,547,591	208,
PROPERTY, PLANT AND EQUIPMENT		
Land	3,061,203	3,
Building	12,224,667	12,
Machinery and equipment	77,188,310	67,
Furniture, office and computer equipment	53,432,432	49,
Leasehold improvements	4,457,979	2,
	150,364,591	134,
Less allowances for depreciation and amortization	78,210,754	67,
	72,153,837	66,
OTHER ASSETS	14,285,878	14,
GOODWILL	61,713,710	62,
	$ 372,701,016	$ 353,

See notes to consolidated financial statements.

	December 31 2000	June 20
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 29,666,892	$ 27,
Accrued expenses and other	24,243,891	25,
Current portion of long-term obligations	1,256,449	1,
TOTAL CURRENT LIABILITIES	55,167,232	53,
LONG-TERM OBLIGATIONS	107,404,925	108,
SHAREHOLDERS' EQUITY		
Common Stock, $.01 par value; authorized 100,000,000 shares; issued and outstanding 33,811,620 shares at December 31, 2000 and 33,182,565 shares at June 30, 2000	338,116	
Additional capital	116,367,999	110,
Accumulated other comprehensive loss	(3,821,869)	(3,
Retained earnings	140,762,845	126,
Treasury stock	(43,518,232)	(43,
TOTAL SHAREHOLDERS' EQUITY	210,128,859	191,
	$ 372,701,016	$ 353,

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

RESPIRONICS, INC. AND SUBSIDIARIES

	Three months ended December 31 2000	Three months ended December 31 1999	Dec
Net sales	$ 104,547,903	$ 91,702,567	$ 19
Cost of goods sold	55,112,186	49,381,846	10
Cost of goods sold - restructuring charges	0	0	
GROSS MARGIN	49,435,717	42,320,721	9
General and administrative expenses	12,960,050	11,794,695	2
Sales, marketing and commission expenses	17,595,740	15,662,311	3
Research and development expenses	3,726,994	4,001,304	

Restructuring charges	0	3,325,615	
Interest expense	2,013,838	1,714,588	
Other income	(210,830)	(284,681)	
	36,085,792	36,213,832	6
INCOME (LOSS) BEFORE INCOME TAXES	13,349,925	6,106,889	2
Income taxes	5,339,970	2,442,756	
NET INCOME (LOSS)	$ 8,009,955	$ 3,664,133	$ 1
Basic earnings (loss) per share	$ 0.27	$ 0.12	$
Basic shares outstanding	29,813,027	29,552,425	2
Diluted earnings (loss) per share	$ 0.26	$ 0.12	$
Diluted shares outstanding	30,772,494	29,683,238	3

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

RESPIRONICS, INC. AND SUBSIDIARIES

	Six Months Ended Dec	
	2000	
OPERATING ACTIVITIES		
Net income (loss)	$ 14,300,607	$
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	13,647,228	1
Asset write-offs	0	
Changes in operating assets and liabilities:		
Increase in accounts receivable	(3,358,156)	(
Increase in inventories	(6,173,675)	(
Change in other operating assets and liabilities	(1,367,919)	(
NET CASH PROVIDED BY OPERATING ACTIVITIES	17,048,085	
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(16,358,924)	(1
Additional purchase price for acquired business	(787,580)	(
NET CASH USED BY INVESTING ACTIVITIES	(17,146,504)	(16

FINANCING ACTIVITIES		
Net (decrease) increase in borrowings	(840,275)	1
Issuance of common stock	5,578,639	
Acquisition of treasury stock, net	(166,115)	(
Decrease in minority interest	0	
NET CASH PROVIDED BY FINANCING ACTIVITIES	4,572,249	
INCREASE (DECREASE) IN CASH AND SHORT-TERM INVESTMENTS	4,473,830	(
Cash and short-term investments at beginning of period	19,594,484	2
CASH AND SHORT-TERM INVESTMENTS AT END OF PERIOD	$ 24,068,314	$ 1

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

RESPIRONICS, INC. AND SUBSIDIARIES

December 31, 2000

NOTE A -- BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months and six months ended December 31, 2000 are not necessarily indicative of the results that may be expected for the year ended June 30, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2000.

NOTE B -- INVENTORIES

The composition of inventory is as follows:

	December 31 2000	June 30 2000
Raw materials	$23,838,000	$21,561,000
Work-in-process	5,900,000	5,825,000
Finished goods	44,205,000	40,383,000
	$73,943,000	$67,769,000

NOTE C -- CONTINGENCIES

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

patents. The January 1995 and June 1996 actions have been consolidated, and discovery is ongoing. The Court has granted the Company's various motions for summary judgment and held that the Company does not infringe any of the competitor's four patents at issue. The competitor may seek an appeal of those decisions. In any event, the Company intends to continue to pursue its claims that the competitor's patents are invalid or unenforceable.

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

NOTE D -- RESTRUCTURING CHARGES

In July 1999, the Company announced a major restructuring of its U.S. operations. The major components of the restructuring included the closing of the Westminster, Colorado manufacturing facility, the closing of 19 customer satisfaction centers throughout the United States, the downsizing of the Marietta, Georgia manufacturing facilities, the opening of a centralized distribution and repair center in Youngwood, Pennsylvania, the realignment of the Company into four divisions with a corresponding management realignment, and a workforce reduction of approximately 10% associated with the facility changes and the realignment. All major elements of the restructuring were completed during fiscal year 2000.

RECONCILIATION OF RESTRUCTURING RESERVES

	Employee Severance Costs	Asset Write-Downs	Lease Buyouts & Other Direct Expenses	Res
Balance at July 1, 1999	$ -	$ -	$ -	$
Restructuring charges (net)	6,300,000	8,900,000	14,000,000	
Cash expenditures	(3,100,000)	-	(12,900,000)	
Noncash expenditures	-	(1,700,000)	-	
Balance at June 30, 2000	3,200,000	7,200,000	1,100,000	
Restructuring charges (net)	-	-	-	
Cash expenditures	(400,000)	-	(400,000)	
Noncash expenditures	-	(700,000)	-	
Balance at September 30, 2000	2,800,000	6,500,000	700,000	

Restructuring charges (net)	-	-	-	
Cash expenditures	(400,000)	-	(400,000)	
Noncash expenditures	-	(900,000)	-	
Balance at December 31, 2000	$ 2,400,000	$ 5,600,000	$ 300,000	$

During fiscal year 2000, the Company incurred a total of $29,200,000 in charges related to this restructuring. The primary components of these charges were severance and employment related costs ($6,300,000), asset write-downs to reflect decisions made regarding product, facility, and systems rationalization ($8,900,000), and lease buyouts related to facility rationalizations and other direct expenses of the restructuring ($14,000,000). Restructuring costs incurred but not yet paid have been credited to accrued expense and asset write-downs have been credited against the applicable asset accounts. Substantially all of the remaining restructuring accruals as of December 31, 2000 will be paid out during the next eighteen to twenty months.

NOTE E - COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended		S
	December 31, 2000	December 31, 1999	Decemb 200
Net income (loss)	$ 8,010,000	$ 3,664,000	$ 14,3
Foreign currency translation gains (losses)	286,000	(1,656,000)	(6
Comprehensive income (loss)	$ 8,296,000	$ 2,008,000	$ 13,6

NOTE F - SPECIAL ITEMS

As previously disclosed, in February 2000, the parent company of one of the Company's major customers filed a voluntary petition to reorganize under Chapter 11 of the U.S. Bankruptcy Code. The Company's customer was one of the entities included in the filing. According to press releases issued in connection with the filing and discussions with the customer, the election to seek court protection was made in order to facilitate the restructuring of the parent company's capital and lease obligations and normal business operations of the Company's customer are continuing. The Company's total balance due from the customer at the date of the filing was approximately $4,500,000, and accordingly, the Company has recorded a $4,500,000 special increase to the allowance for doubtful accounts during fiscal year 2000. In November 2000, the Company reached a settlement with the customer under which the customer will pay a portion of the petition-date balance in monthly installments over six months. The remaining petition-date balance will constitute a claim in the continuing bankruptcy case.

NOTE G - RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement

No. 133, "Accounting for Derivative Instruments and Hedging Activities." As amended by FASB Statements No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" and No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," FASB No. 133 was required to be adopted as of the first quarter of fiscal year 2001. The Company adopted FASB No. 133 on July 1, 2000. The statement required, among other things, derivative instruments to be recorded at market value, with changes in fair value reflected in earnings to the extent the derivative instruments do not qualify as hedges in accordance with the statement. Because of the Company's minimal use of derivative instruments, the adoption of FASB No. 133 on July 1, 2000 had no financial impact on the Company, and management believes that FASB No. 133 will not have a material impact on earnings during fiscal year 2001.

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

The statements contained in this Quarterly Report on Form 10-Q, specifically those contained in Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations", along with statements in other reports filed with the Securities and Exchange Commission, external documents and oral presentations which are not historical are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21B of the Securities and Exchange Act of 1934, as amended. These forward-looking statements represent the Company's present expectations or beliefs concerning future events. The Company cautions that such statements are qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements. Results actually achieved may differ materially from expected results included in these statements. Those factors include, but are not limited to, the following: foreign currency fluctuations, regulations and other factors affecting operations and sales outside the United States including potential future effects of the change in sovereignty of Hong Kong, customer consolidation and concentration, increasing price competition and other competitive factors in the sale of products, the success of programs, interest rate fluctuations, intellectual property and related litigation, other litigation, FDA and other government regulation, third party reimbursement, restructuring activities, and anticipated cost savings.

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

RESULTS OF OPERATIONS

Net sales for the quarter ended December 31, 2000 were $104,548,000 representing a 14% increase over the sales of $91,703,000 recorded for the quarter ended December 31, 1999. Increases in unit and dollar sales for the Company's sleep apnea therapy devices (the Company's largest product line) and oxygen concentrator devices, as well as increases in the sales of masks, helped to drive the increase in sales for the quarter. These product lines, along with ventilation devices, comprise the major part of the Company's homecare product offerings. Sales of the Company's hospital products also increased during the current quarter, led by unit and dollar increases for the Company's Esprit(R) ventilators.

Net sales for the six months ended December 31, 2000 were $196,612,000 representing a 14% increase over the sales of $172,302,000 recorded for the six months ended December 31, 1999. Increases in the Company's sleep apnea therapy devices, oxygen concentrators, and masks as discussed above accounted for the majority of the increase in sales, along with increased sales of the Company's hospital Esprit(R) and BiPAP(R) Vision(TM) ventilators.

Partially offsetting this increase in sales in the current six-month period was a decrease in domestic sales of the Company's non-invasive ventilatory support devices for use in the home compared to prior year levels. This sales decrease was caused by the previously disclosed October 1, 1999 implementation of revised government insurance coverage guidelines for the home use of these products in the United States and the corresponding reduction in purchases of these units by the Company's dealer customers. For the six months ended December 31, 2000, sales of non-invasive ventilatory support units for home use in the United States accounted for approximately two percent of total sales.

The Company's gross profit was 47% of net sales for the quarter and six months ended December 31, 2000 compared to 46% of net sales, excluding the impact of restructuring charges, for the quarter and six months ended December 31, 1999. This gross profit percentage increase was due primarily to higher revenue levels, sales mix and the positive impact of the Company's restructuring activities in the manufacturing area.

General and administrative expenses were $12,960,000 (12% of net sales) for the quarter ended December 31, 2000 as compared to $11,795,000 (13% of net sales) for the quarter ended December 31, 1999. For the six-month period ended December 31, 2000, general and administrative expenses were $23,830,000 (12% of net sales) as compared to $21,951,000 (13% of net sales) for the prior year six-month period. The increase in absolute dollars of general and administrative expenses was due primarily to an increase in information technology department expenses, credit and collection

department expenses, and other spending consistent with the growth of the Company's business. Partially offsetting these increases in expenses were lower operating expenses due to the Company's restructuring. General and administrative expenses decreased as a percent of sales in the current year periods.

Sales, marketing and commission expenses were $17,596,000 (17% of net sales) for the quarter ended December 31, 2000 as compared to $15,662,000 (17% of net sales) for the quarter ended December 31, 1999. For the six-month period ended December 31, 2000, sales, marketing and commission expenses were $34,419,000 (18% of net sales) as compared to $30,344,000 (18% of net sales) for the prior year six-month period. The increases in absolute dollars of expense for the current quarter and six-month periods were due primarily to increased sales (resulting in higher commission and bonus expenses) and increased sales and marketing activity levels in the Company's homecare and hospital product lines during the current year, partially offset by lower operating expenses due to the Company's restructuring.

Research and development expenses were $3,727,000 (4% of net sales) for the quarter ended December 31, 2000 as compared to $4,001,000 (4% of net sales) for the quarter ended December 31, 1999. For the six-month period ended December 31, 2000, research and development expenses were $7,098,000 (4% of net sales) as compared to $8,327,000 (5% of net sales) for the prior year six-month period. The decreases in absolute dollars of expense for the current quarter and six-month periods were due primarily to the timing of certain research and development projects and the impact of certain new products transitioning from development into production. Significant product development efforts are ongoing and a variety of new products were introduced during the current quarter, including the new BiPAP(R) Synchrony(TM) Ventilatory Support System and the new REMstar(R) Nova(TM) CPAP (Continuous Positive Airway Pressure) device. New product launches in many of the Company's major product lines are scheduled for the remainder of fiscal year 2001. Additional development work and clinical trials are being conducted in certain product areas outside the Company's current core products.

During the three months and six months ended December 31, 1999, the Company incurred charges of $3,300,000 and $18,000,000, respectively, related to a previously disclosed restructuring. The primary components of these costs were severance and employment related costs, asset write-downs to reflect decisions made regarding product, facility, and systems rationalization, and lease buyouts related to facility rationalizations and other direct expenses of the restructuring. Approximately $4,600,000 of these charges related to inventory write-offs in connection with product rationalizations and have been reported as a separate component of cost of goods sold. See Note D to the Consolidated Financial Statements for additional information about the restructuring charges.

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

As a result of the factors described above, the Company's net income was $8,010,000 (8% of net sales) or $0.26 per diluted share for the quarter ended December 31, 2000 as compared to net income of $3,664,000 (4% of net sales) or $0.12 per diluted share for the quarter ended December 31, 1999. For the six-month period ended December 31, 2000, the Company's net income was $14,301,000 (7% of net sales) or $0.47 per diluted share as compared to a net loss of ($890,000) (1% of net sales) or ($0.03) per diluted share for the prior year six-month period. Excluding the impact of the restructuring charges, the Company's net income for the quarter and six months ended December 31, 1999 was $5,660,000 (6% of net sales) or $0.19 per diluted share and $9,912,000 (6% of net sales) or $0.33 per diluted share, respectively.

Earnings per share amounts for the quarters and six-month periods ended December 31, 2000 and 1999 reflect the impact of shares repurchased under the Company's stock buyback program which is described below.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company had working capital of $169,380,000 at December 31, 2000 and $155,095,000 at June 30, 2000. Net cash provided by operating activities was $17,048,000 for the six months ended December 31, 2000 as compared to $6,671,000 for the six months ended December 31, 1999. The increase in cash provided by operating activities for the current six-month period was primarily due to higher earnings as compared to the prior year.

Net cash used by investing activities was $17,147,000 for the six months ended December 31, 2000 as compared to $16,175,000 for the six months ended December 31, 1999. Cash used by investing activities for both periods include capital expenditures, including the purchase of leasehold improvements, production equipment, computer hardware and software, and telecommunications and office equipment. In addition, cash used by investing activities in the periods described includes additional purchase price paid for a previously acquired business pursuant to the terms of that acquisition agreement. The funding for investment activities in both periods was provided by positive cash flow from operating activities, and accumulated cash and short-term investments, and in 1999, borrowings under long-term obligations.

Net cash provided by financing activities includes borrowings and repayments under the Company's various long-term obligations, proceeds from the issuance of common stock under the Company's stock option plans, and the acquisition of treasury stock. Net cash provided by financing activities was

$4,572,000 for the six months ended December 31, 2000 as compared to $135,000 for the six months ended December 31, 1999. Increased proceeds from the issuance of common stock under the Company's stock option plans was the primary reason for the increase in cash provided during the current six-month period. The Company has been repurchasing shares

of its outstanding common stock since August 1998 pursuant to a series of Board of Directors' actions that have authorized stock buybacks totaling 4,000,000 shares. During the six months ended December 31, 1999, the Company's buyback activity resulted in net use of cash of $9,675,000. No shares were repurchased under this buyback program during the six months ended December 31, 2000. The Company has repurchased a total of 3,800,000 shares under this buyback program. At December 31, 2000, approximately 3,757,000 shares remained in treasury. Shares that are repurchased are added to treasury shares pending future use and reduce the number of shares outstanding used in calculating earnings per share.

In July 1999, the Company announced a major restructuring of its U.S. operations that included facility closings and downsizings, a divisional and management realignment, and an approximate ten percent workforce reduction associated with those changes. The restructuring activities have been completed and restructuring charges totaling $29,200,000 were recorded during the fiscal year ended June 30, 2000. See Note D to the Consolidated Financial Statements for an analysis of these charges, including the reserve balances relating to these charges that remain at December 31, 2000. The reserves shown for employee severance, lease buyouts, and other direct expenses will require corresponding cash expenditures in future periods. The Company does not expect to incur additional charges in respect to this restructuring. As previously disclosed, annualized savings associated with the restructuring are expected to be approximately $10,000,000. These savings began to be realized primarily during the third quarter of fiscal year 2000. These cost savings are expected to positively impact cost of sales, general and administrative expenses, and sales and marketing expenses, and will be offset to some extent by planned increases in those expenses consistent with expected increases in sales in future periods and the Company's continuing investment in the business.

The Company believes that projected positive cash flow from operating activities, the availability of additional funds (totaling approximately $20,000,000 at December 31, 2000) under its revolving credit facility, and its accumulated cash and short-term investments will be sufficient to meet its current and presently anticipated future needs for the remainder of fiscal year 2001 for operating activities (including payments against restructuring accruals), investing activities, and financing activities (primarily consisting of payments on long-term debt).

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company is exposed to market risk from changes in interest rates and foreign exchange rates.

Interest Rates: The Company's primary interest rate risk relates to its long-term debt obligations. At December 31, 2000, the Company had total long-term debt obligations, including the current portion of those obligations, of $108,661,000. Of that amount, $2,641,000 was in fixed rate obligations and $106,020,000 was in variable rate obligations. Assuming a 10% increase in interest rates on the Company's variable rate obligations (i.e. an increase from the December 31, 2000 weighted average interest rate of 7.33% to a weighted average interest rate of 8.06%), annual interest expense would be approximately $777,000 higher based on the December 31, 2000 outstanding balance of variable rate obligations. The Company has no interest rate swap or exchange agreements.

Foreign Exchange Rates: Information relating to the sensitivity to foreign currency exchange rate changes is omitted because foreign exchange exposure risk has not materially changed from that disclosed in the Company's Annual Report on Form 10-K for the year ended June 30, 2000.

Inflation

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

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." As amended by FASB Statements No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" and No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," FASB No. 133 was required to be adopted as of the first quarter of fiscal year 2001. The Company adopted FASB No. 133 on July 1, 2000. The statement required, among other things, derivative instruments to be recorded at market value, with changes in fair value reflected in earnings to the extent the derivative instruments do not qualify as hedges in accordance with the statement. Because of the Company's minimal use of derivative instruments, the adoption of FASB No. 133 on July 1, 2000 had no financial impact on the Company, and management believes that FASB No. 133 will not have a material impact on earnings during fiscal year 2001.

In December 1999, the Staff of the Securities and Exchange Commission released Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition," to provide guidance on the recognition, presentation, and disclosure of revenues in financial statements. This statement will become effective during the fourth fiscal quarter of fiscal year 2001.

In September 2000, the FASB issued Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." FASB No. 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral, and is effective for transfers and servicing of financial assets and extinguishment of liabilities occurring after March 31, 2001.

PART 2 OTHER INFORMATION

Item 1: Legal Proceedings

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

Item 2: Changes in Securities

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

Item 3: Defaults Upon Senior Securities

(a) Not applicable
(b) Not applicable

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

The Company's Annual Meeting of Shareholders was held on November 16, 2000. The holders of 26,567,150 shares of the Company's stock (approximately 90% of the outstanding shares) were present at the meeting in person or by proxy. The only matters voted upon at the meeting were:

(i) the election of three persons to serve as directors for a three year term expiring at the Annual Meeting of Shareholders in 2003,

(ii) the ratification of the selection of Ernst & Young, LLP as independent public accountants to audit the financial statements of the Company for the fiscal year ending June 30, 2001, and

(iii) the adoption of the Company's 2000 Incentive Stock Option Plan.

The results of voting were as follows:

(i) James H. Hardie, Joseph C. Lawyer, and Sean McDonald, the nominees of the Company's Board of Directors, were elected to serve until the Annual Meeting of Shareholders in 2003. There were no other nominees.

Shares were voted as follows:

Name	For	Withhold Vote For
James H. Hardie	25,973,940	593,210
Joseph C. Lawyer	25,983,350	583,800
Sean McDonald	25,961,867	605,283

(ii) the selection of Ernst & Young, LLP as independent public accountants for the 2001 fiscal year was ratified: affirmative votes, 26,464,084; negative votes, 51,774.

(iii) the adoption of the Company's 2000 Incentive Stock Option Plan; affirmative votes, 24,489,655; negative votes, 1,958,208.

Item 5: Other Information

Not applicable

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 10.46 Separation Agreement between the Company and Robert D. Crouch dated October 12, 2000, filed as Exhibit 10.46 to this Form 10-Q for the quarter ended December 31, 2000.

Exhibit 15 Acknowledgement of Ernst & Young, LLP.

(b) Reports on Form 8-K

Not applicable

SIGNATURES

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

RESPIRONICS, INC.

Date: February 14, 2001

/s/ Daniel J. Bevevino

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

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