

RESMED INC
Form 10-Q
January 25, 2017
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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 December 31, 2016

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

For the transition period from _____ to _____

Commission File Number: 001-15317

ResMed Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

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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 January 18, 2017, there were 141,656,993 shares of Common Stock (\$0.004 par value) outstanding. This number excludes 41,086,234 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)

| | December 31, 2016 | June 30, 2016 |
|---|----------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 788,146 | \$ 731,434 |
| Accounts receivable, net of allowance for doubtful accounts of \$11,449 and \$12,555 at December 31, 2016 and June 30, 2016, respectively | 383,992 | 382,086 |
| Inventories (note 3) | 253,108 | 224,456 |
| Prepaid expenses and other current assets | 95,028 | 81,743 |
| Total current assets | 1,520,274 | 1,419,719 |
| Non-current assets: | | |
| Property, plant and equipment, net (note 4) | 375,928 | 384,276 |
| Goodwill (note 6) | 1,046,304 | 1,059,245 |
| Other intangible assets, net (note 7) | 275,422 | 299,808 |
| Deferred income taxes | 61,629 | 55,496 |
| Other assets | 43,013 | 38,161 |
| Total non-current assets | 1,802,296 | 1,836,986 |
| Total assets | \$ 3,322,570 | \$ 3,256,705 |
| Liabilities and Stockholders Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 94,100 | \$ 92,571 |
| Accrued expenses | 216,225 | 156,805 |
| Deferred revenue | 46,389 | 50,009 |
| Income taxes payable | 25,869 | 39,166 |
| Short-term debt (note 9) | 299,812 | 299,438 |
| Total current liabilities | 682,395 | 637,989 |
| Non-current liabilities: | | |
| Deferred revenue | 46,682 | 40,281 |
| Deferred income taxes | 13,789 | 9,061 |
| Other long-term liabilities | 864 | 1,211 |
| Long-term debt (note 9) | 868,690 | 873,332 |
| Total non-current liabilities | 930,025 | 923,885 |
| Total liabilities | 1,612,420 | 1,561,874 |

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| | | |
|---|---------------------|---------------------|
| Commitments and contingencies (note 13) | | |
| Stockholders' equity: (note 11) | | |
| Preferred stock, \$0.01 par value, 2,000,000 shares authorized; none issued | - | - |
| Common stock, \$0.004 par value, 350,000,000 shares authorized; 182,697,356 issued and 141,611,122 outstanding at December 31, 2016 and 181,747,157 issued and 140,660,923 outstanding at June 30, 2016 | 566 | 563 |
| Additional paid-in capital | 1,335,895 | 1,303,238 |
| Retained earnings | 2,220,283 | 2,160,299 |
| Treasury stock, at cost, 41,086,234 shares at December 31, 2016, and June 30, 2016 | (1,546,611) | (1,546,611) |
| Accumulated other comprehensive loss | (299,983) | (222,658) |
| Total stockholders' equity | 1,710,150 | 1,694,831 |
| Total liabilities and stockholders' equity | \$ 3,322,570 | \$ 3,256,705 |

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 December 31, | | Six Months Ended December 31, | |
|--|------------------------------------|------------|----------------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Net revenue | \$ 530,397 | \$ 454,540 | \$ 995,846 | \$ 866,187 |
| Cost of sales (excluding amortization of acquired intangible assets) | 221,326 | 188,031 | 417,592 | 361,059 |
| Gross profit | 309,071 | 266,509 | 578,254 | 505,128 |
| Operating expenses: | | | | |
| Selling, general and administrative | 139,307 | 118,219 | 268,158 | 229,314 |
| Research and development | 38,190 | 28,970 | 72,637 | 56,162 |
| Restructuring expenses (note 16) | 4,413 | 6,914 | 4,413 | 6,914 |
| Litigation settlement expenses (note 17) | 8,500 | - | 8,500 | - |
| Acquisition related expenses (note 12) | 10,076 | - | 10,076 | - |
| Amortization of acquired intangible assets | 11,690 | 4,429 | 23,431 | 6,736 |
| Total operating expenses | 212,176 | 158,532 | 387,215 | 299,126 |
| Income from operations | 96,895 | 107,977 | 191,039 | 206,002 |
| Other (loss) income, net: | | | | |
| Interest (expense) income, net | (2,437) | 2,476 | (4,929) | 5,898 |
| Other, net | 1,749 | 3,242 | 3,021 | 1,239 |
| Total other (loss) income, net | (688) | 5,718 | (1,908) | 7,137 |
| Income before income taxes | 96,207 | 113,695 | 189,131 | 213,139 |
| Income taxes | 19,464 | 18,119 | 36,282 | 34,646 |
| Net income | \$ 76,743 | \$ 95,576 | \$ 152,849 | \$ 178,493 |
| Basic earnings per share | \$ 0.54 | \$ 0.68 | \$ 1.08 | \$ 1.27 |
| Diluted earnings per share (note 2) | \$ 0.54 | \$ 0.68 | \$ 1.08 | \$ 1.26 |
| Dividend declared per share | \$ 0.33 | \$ 0.30 | \$ 0.66 | \$ 0.60 |
| Basic shares outstanding (000 s) | 141,310 | 139,926 | 141,048 | 140,118 |
| Diluted shares outstanding (000 s) | 142,097 | 141,423 | 141,982 | 141,837 |

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 Comprehensive Income (Unaudited)

(In US\$ thousands)

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|--|--|-------------|--|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| Net income | \$ 76,743 | \$ 95,576 | \$ 152,849 | \$ 178,493 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation (loss) gain adjustments | (107,048) | 34,687 | (77,325) | (87,421) |
| Comprehensive income (loss) | \$ (30,305) | \$ 130,263 | \$ 75,524 | \$ 91,072 |

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)

| | Six Months Ended December 31, | |
|---|--|-------------------|
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Net income | \$ 152,849 | \$ 178,493 |
| Depreciation and amortization | 55,504 | 39,920 |
| Stock-based compensation costs | 22,802 | 23,841 |
| Impairment of cost-method investments | 206 | 750 |
| Changes in fair value of business combination contingent consideration | 10,076 | (105) |
| Impairment of long-lived assets | - | 2,815 |
| Changes in operating assets and liabilities, net of effect of acquisitions: | | |
| Accounts receivable | (7,080) | 24,533 |
| Inventories | (36,104) | 8,751 |
| Prepaid expenses, net deferred income taxes and other current assets | (15,197) | 14,398 |
| Accounts payable, accrued expenses and other | 23,086 | (13,174) |
| Net cash provided by operating activities | 206,142 | 280,222 |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (29,247) | (30,934) |
| Patent registration costs | (4,603) | (4,902) |
| Business acquisitions, net of cash acquired | (3,184) | (152,118) |
| Investments in cost-method investments | (3,867) | (7,582) |
| Proceeds (Payments) on maturity of foreign currency contracts | 8,209 | (28,326) |
| Net cash used in investing activities | (32,692) | (223,862) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock, net | 9,816 | 8,066 |
| Purchases of treasury stock | - | (102,058) |
| Payment of business combination contingent consideration | - | (1,120) |
| Proceeds from borrowings, net of borrowing costs | 75,000 | 200,000 |
| Repayment of borrowings | (80,000) | (100,160) |
| Dividend paid | (92,865) | (84,054) |
| Net cash used in financing activities | (88,049) | (79,326) |
| Effect of exchange rate changes on cash | (28,689) | (35,479) |
| Net increase (decrease) in cash and cash equivalents | 56,712 | (58,445) |
| Cash and cash equivalents at beginning of period | 731,434 | 717,249 |
| Cash and cash equivalents at end of period | \$ 788,146 | \$ 658,804 |

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Supplemental disclosure of cash flow information:

| | | |
|---|-----------------|-------------------|
| Income taxes paid, net of refunds | \$ 60,282 | \$ 39,182 |
| Interest paid | \$ 13,098 | \$ 2,996 |
| Fair value of assets acquired, excluding cash | \$ 4,519 | \$ 73,560 |
| Liabilities assumed | (76) | (22,755) |
| Goodwill on acquisition | (2,095) | 114,701 |
| Deferred payments | 836 | (281) |
| Fair value of contingent consideration | - | (13,107) |
| Total cash component of purchase price | \$ 3,184 | \$ 152,118 |

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) Summary of Significant Accounting Policies****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, Malaysia, China and the United States. Major distribution and sales sites are located in the United States, Germany, France, the United Kingdom, Switzerland, Australia, Japan, China, Norway and Sweden.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and the rules of the U.S. Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all necessary adjustments, which consisted only of normal recurring items, have been included in the accompanying financial statements to present fairly the results of the interim periods. The results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for the year ending June 30, 2017.

The condensed consolidated financial statements for the three and six months ended December 31, 2016 and 2015 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, 2016.

Revenue Recognition

We generally record revenue on product sales at the time of shipment, which is 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.

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 at the time the related revenue is recognized. Our products are predominantly therapy-based equipment and require no installation. Therefore, we have no installation obligations. For multiple-element arrangements, we allocate arrangement consideration to the deliverables by use of the relative selling price method. The selling price used for each deliverable is based on vendor specific objective evidence.

We also generate revenue from time-based licensing of our software and associated services. In most instances, revenue is generated under sales agreements with multiple elements comprising subscription fees and professional services, which typically have contract terms of one to three years. We evaluate each element in these multiple-element arrangements to determine whether they represent a separate unit of accounting and recognize each element as the services are performed.

New Accounting Pronouncements

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In May, 2014, the FASB issued Accounting Standards Update (ASU), ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the company beginning in the first quarter of fiscal year 2019. Early application is not permitted. We are currently assessing the impact on our financial condition, results of operations and cash flows as a result of the adoption of ASU 2014-09, however, we do not expect this updated standard to have a material impact on our consolidated financial statements and related disclosures.

In April, 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 will more closely align the presentation of debt issuance costs under U.S. GAAP with the presentation under comparable International Financial Reporting Standards (IFRS) by requiring that debt issuance costs be presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability. The new standard was effective for us beginning in the first quarter of fiscal

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PART I FINANCIAL INFORMATION

Item 1

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

2017. As a result of the adoption, we reclassified debt issuance costs of \$0.6 million and \$1.7 million, from other assets to short-term debt and long-term debt, respectively, in our consolidated balance sheet as of June 30, 2016. The adoption of this guidance did not impact our consolidated statements of earnings, comprehensive income, stockholders' equity, or cash flows.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*, which requires an entity to measure inventory within the scope of this ASU at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments in this guidance more closely align the measurement of inventory in GAAP with the measurement of inventory in IFRS. The new standard is effective for us beginning in the first quarter of fiscal 2018. We do not expect this updated standard to have a material impact on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. Under the new guidance, lessees are required to recognize lease assets and liabilities on the balance sheet for leases classified as operating leases under current GAAP. This ASU is effective for the company beginning July 1, 2019. We are currently evaluating the impact of this standard on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which requires companies to recognize additional tax benefits or expenses related to the vesting or settlement of employee share-based awards, rather than in additional paid-in capital, in the reporting period in which they occur. This ASU also requires companies to classify cash flows resulting from employee share-based payments, including the additional tax benefits or expenses related to the vesting or settlement of share-based awards, as cash flows from operating activities. The new standard is effective for annual reporting periods beginning after December 15, 2016, with early adoption permitted. We elected to early adopt this ASU during the fourth quarter of fiscal year 2016 and were required to report the impact as though the ASU had been adopted on July 1, 2015. Accordingly, we recognized additional income tax benefits as an increase to earnings of \$5.1 million and \$7.6 million for the three and six month periods ended December 31, 2015, respectively, and we also recognized additional income tax benefits as an increase to operating cash flows of \$10.7 million for the six months ended December 31, 2015.

(2) Earnings Per Share

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

Stock options and restricted stock units of 410,520 and 244,638, for the three months ended December 31, 2016 and 2015, respectively, and stock options and restricted stock units of 337,487 and 176,669 for the six months ended December 31, 2016 and 2015, respectively were not included in the computation of diluted earnings per share as the effect would have been anti-dilutive.

Basic and diluted earnings per share for the three and six months ended December 31, 2016 and 2015 are calculated as follows (in thousands except per share data):

| Three Months Ended December 31, | | Six Months Ended December 31, | |
|------------------------------------|------|----------------------------------|------|
| 2016 | 2015 | 2016 | 2015 |

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| | | | | |
|--|-----------|-----------|------------|------------|
| Numerator: | | | | |
| Net Income | \$ 76,743 | \$ 95,576 | \$ 152,849 | \$ 178,493 |
| Denominator: | | | | |
| Basic weighted-average common shares outstanding | 141,310 | 139,926 | 141,048 | 140,118 |
| Effect of dilutive securities: | | | | |
| Stock options and restricted stock units | 787 | 1,497 | 934 | 1,719 |
| Diluted weighted average shares | 142,097 | 141,423 | 141,982 | 141,837 |
| Basic earnings per share | \$ 0.54 | \$ 0.68 | \$ 1.08 | \$ 1.27 |
| Diluted earnings per share | \$ 0.54 | \$ 0.68 | \$ 1.08 | \$ 1.26 |

(3) Inventories

Inventories were comprised of the following at December 31, 2016 and June 30, 2016 (in thousands):

| | December 31, 2016 | June 30, 2016 |
|-------------------|-------------------|---------------|
| Raw materials | \$ 74,842 | \$ 67,121 |
| Work in progress | 3,392 | 3,939 |
| Finished goods | 174,874 | 153,396 |
| Total inventories | \$ 253,108 | \$ 224,456 |

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PART I FINANCIAL INFORMATION

Item 1

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

(4) Property, Plant and Equipment

Property, plant and equipment were comprised of the following as of December 31, 2016 and June 30, 2016 (in thousands):

| | December 31, 2016 | June 30, 2016 |
|--|-------------------|---------------|
| Machinery and equipment | \$ 210,204 | \$ 197,485 |
| Computer equipment | 140,268 | 154,105 |
| Furniture and fixtures | 44,534 | 40,776 |
| Vehicles | 7,268 | 9,060 |
| Clinical, demonstration and rental equipment | 79,285 | 79,641 |
| Leasehold improvements | 33,487 | 33,795 |
| Land | 53,202 | 54,338 |
| Buildings | 224,986 | 229,502 |
| | 793,234 | 798,702 |
| Accumulated depreciation and amortization | (417,306) | (414,426) |
| Property, plant and equipment, net | \$ 375,928 | \$ 384,276 |

(5) Cost-Method Investments

The aggregate carrying amount of our cost-method investments at December 31, 2016 and June 30, 2016, was \$37.5 million and \$33.8 million, respectively, and is included in the non-current balance of other assets on the condensed consolidated balance sheets.

We periodically evaluate the carrying value of our cost-method investments, when events and circumstances indicate that the carrying amount of an asset may not be recovered. We estimate the fair value of our cost-method investments to assess whether impairment losses shall be recorded using Level 3 inputs. These investments include our holdings in privately held service and research companies that are not exchange traded and therefore not supported with observable market prices. However, these investments are valued by reference to their net asset values that can be market supported and unobservable inputs including future cash flows. During the six months ended December 31, 2016 and 2015, we recognized \$0.2 million and \$0.8 million, respectively, of impairment losses related to our cost-method investments. We have determined, after the impairment charge, that the fair value of our remaining investments exceed their carrying values.

The following table shows a reconciliation of the changes in our cost-method investments during the six months ended December 31, 2016 and 2015 (in thousands):

| | Six Months Ended December 31, | |
|--|-------------------------------|-----------|
| | 2016 | 2015 |
| Balance at the beginning of the period | \$ 33,815 | \$ 25,600 |
| Investments | 3,867 | 7,582 |
| Impairment of cost-method investments | (206) | (750) |
| Balance at the end of the period | \$ 37,476 | \$ 32,432 |

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(6) Goodwill

Changes in the carrying amount of goodwill for six months ended December 31, 2016, and 2015 were as follows (in thousands):

| | Six Months Ended December 31, | |
|--|-------------------------------|------------|
| | 2016 | 2015 |
| Balance at the beginning of the period | \$ 1,059,245 | \$ 264,261 |
| Business acquisition | (2,095) | 114,701 |
| Foreign currency translation adjustments | (10,846) | (5,875) |
| Balance at the end of the period | \$ 1,046,304 | \$ 373,087 |

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PART I FINANCIAL INFORMATION

Item 1

RESMED INC. AND SUBSIDIARIES**Notes to the Condensed Consolidated Financial Statements****(Unaudited)****(7) Other Intangible Assets**

Other intangible assets were comprised of the following as of December 31, 2016 and June 30, 2016 (in thousands):

| | December 31, 2016 | June 30, 2016 |
|--|-------------------|---------------|
| Developed/core product technology | \$ 199,166 | \$ 202,050 |
| Accumulated amortization | (75,426) | (63,825) |
| Developed/core product technology, net | 123,740 | 138,225 |
| Trade names | 48,476 | 47,897 |
| Accumulated amortization | (7,283) | (3,832) |
| Trade names, net | 41,193 | 44,065 |
| Non-compete agreements | 3,031 | 3,089 |
| Accumulated amortization | (1,981) | (1,899) |
| Non compete agreements, net | 1,050 | 1,190 |
| Customer relationships | 116,744 | 118,528 |
| Accumulated amortization | (32,011) | (26,783) |
| Customer relationships, net | 84,733 | 91,745 |
| In-process research and development | 4,100 | 4,100 |
| Accumulated amortization | - | - |
| In-process research and development, net | 4,100 | 4,100 |
| Patents | 75,771 | 74,034 |
| Accumulated amortization | (55,165) | (53,551) |
| Patents, net | 20,606 | 20,483 |
| Total other intangibles, net | \$ 275,422 | \$ 299,808 |

Intangible assets consist of developed/core product technology, trade names, non-compete agreements, customer relationships, and patents, and we amortize them over the estimated useful life of the assets, generally between two and fifteen years. There are no expected residual values related to these intangible assets. In-process research and development is amortized over the estimated useful life of the assets, once the research and development efforts are completed. At least on an annual basis, we evaluate the in-process research and development balances for impairment.

(8) Product Warranties

Changes in the liability for warranty costs, which is included in accrued expenses in our condensed consolidated balance sheets, for the six months ended December 31, 2016 and 2015 are as follows (in thousands):

| | Six Months Ended December 31, | |
|--|-------------------------------|----------|
| | 2016 | 2015 |
| Balance at the beginning of the period | \$ 15,043 | \$ 9,823 |
| Warranty accruals for the period | 8,851 | 5,169 |
| Warranty costs incurred for the period | (6,125) | (4,523) |

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| | | |
|--|-----------|----------|
| Foreign currency translation adjustments | (855) | (485) |
| Balance at the end of the period | \$ 16,914 | \$ 9,984 |

(9) Debt

Debt at December 31, 2016 and June 30, 2016 consisted of the following (in thousands):

| | December 31, 2016 | June 30, 2016 |
|--------------------------|-------------------|---------------|
| Short-term debt | \$ 300,000 | \$ 300,000 |
| Deferred borrowing costs | (188) | (562) |
| Short-term debt, net | 299,812 | 299,438 |
| Long-term debt | 870,000 | 875,000 |
| Deferred borrowing costs | (1,310) | (1,668) |
| Long-term debt, net | 868,690 | 873,332 |
| Total debt | \$ 1,168,502 | \$ 1,172,770 |

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

On October 31, 2013, we entered into a revolving credit agreement, as borrower, with lenders, including Union Bank, N.A., as administrative agent, joint lead arranger, swing line lender and letters of credit issuer, and HSBC Bank USA, National Association, as syndication agent and joint lead arranger, providing for a revolving credit facility of \$700 million, with an uncommitted option to increase the revolving credit facility by an additional \$300 million. On April 4, 2016, in connection with our acquisition of Brightree LLC (Brightree), we entered into a first amendment to the revolving credit agreement to increase the size of the revolving credit facility from \$700 million to \$1 billion, with an uncommitted option to increase the revolving credit facility by an additional \$300 million, and to make other modifications to provide for the acquisition of Brightree. The credit facility terminates on October 31, 2018, when 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 LIBOR plus 1.0% to 2.0% (depending on the then-applicable leverage ratio). At December 31, 2016, the interest rate that was being charged on the outstanding principal amount was 2.3%. A commitment fee of 0.15% to 0.25% (depending on the then-applicable leverage ratio) applies on the unused portion of the credit facility. The credit facility also includes a \$25 million sublimit for letters of credit.

On January 9, 2017, we entered into a second amendment to our agreement with our existing lenders, including MUFG Union Bank, N.A. as successor in interest to Union Bank, N.A., as Administrative Agent, Joint Lead Arranger, Swing Line Lender and L/C Issuer; and HSBC Bank USA, National Association, as Syndication Agent and Joint Lead Arranger. The second amendment, among other things, increases the size of our senior unsecured revolving credit facility from \$1.0 billion to \$1.3 billion, with an uncommitted option to increase the revolving credit facility by an additional \$300 million.

Our obligations under the revolving credit agreement are unsecured but are guaranteed by certain of our direct and indirect U. S. subsidiaries, including ResMed Corp., ResMed Motor Technologies Inc., Birdie Inc., Inova Labs, Inc., Brightree, Brightree Services LLC, Brightree Home Health & Hospice LLC and Strategic AR LLC, under an unconditional guaranty. The credit agreement contains customary covenants, including certain financial covenants and an obligation that we maintain certain financial ratios, including a maximum leverage ratio of funded debt to EBITDA (as defined in the credit agreement) and an interest coverage ratio.

At December 31, 2016, there was \$870.0 million outstanding under the revolving credit facility.

Term Loan

On April 4, 2016, in connection with the Brightree acquisition, we also entered into a credit agreement (the term loan credit agreement) providing a \$300 million senior unsecured one-year term loan credit facility.

Our obligations under the term loan credit agreement are unsecured but are guaranteed by certain of our direct and indirect U.S. subsidiaries, including ResMed Corp., ResMed Motor Technologies Inc., Birdie Inc., Inova Labs, Inc., Brightree, Brightree Services LLC, Brightree Home Health & Hospice LLC and Strategic AR LLC, under an unconditional guaranty. The term loan credit facility terminates on April 3, 2017, when all unpaid principal and interest under the loans must be repaid. The outstanding principal amount due under the term loan credit facility will bear interest at a rate equal to LIBOR plus 1.0% to 2.0% (depending on the then-applicable leverage ratio). At December 31, 2016, the interest rate that was being charged on the outstanding principal amount was 2.3%. The term loan 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 (as defined in the term loan credit agreement) and an interest coverage ratio.

The proceeds from the funding of the term loan credit facility were used to pay a portion of the acquisition consideration for the Brightree acquisition, as well as to pay fees and expenses in connection with the acquisition, the amendment to the revolving credit agreement and the term loan credit agreement.

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At December 31, 2016, there was \$300.0 million outstanding under the term loan credit agreement.

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RESMED INC. AND SUBSIDIARIES**Notes to the Condensed Consolidated Financial Statements****(Unaudited)****(10) Stock-Based Employee Compensation**

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 employee stock purchase plan (the ESPP) using the 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 less the fair value of dividends that holders are not entitled to, during the vesting period. The fair value of performance restricted stock units which contain a market condition, are estimated using a Monte-Carlo simulation model. 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 stock options granted under our stock option plans and purchase rights granted under the ESPP using the following assumptions:

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|--|---------------------------------|----------|-------------------------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Stock options: | | | | |
| Weighted average grant date fair value | \$ 10.74 | \$ 12.20 | \$ 10.74 | \$ 12.20 |
| Weighted average risk-free interest rate | 1.66% | 1.70% | 1.66% | 1.70% |
| Expected option life in years | 4.9 | 4.9 | 4.9 | 4.9 |
| Dividend yield | 2.29% | 2.06% | 2.29% | 2.06% |
| Expected volatility | 25% | 27% | 25% | 27% |
| ESPP purchase rights: | | | | |
| Weighted average grant date fair value | \$ 12.12 | \$ 13.93 | \$ 12.00 | \$ 14.07 |
| Weighted average risk-free interest rate | 0.5% | 0.2% | 0.4% | 0.2% |
| Expected option life in years | 6 months | 6 months | 6 months | 6 months |
| Dividend yield | 2.23% | 2.06% | 2.18% | 1.73% - 2.06% |
| Expected volatility | 23% | 32% | 23% | 26% - 32% |

During the six months ended December 31, 2016 and 2015, we granted 226,000 and 208,000 performance restricted stock units (PRSUs), respectively. The PRSUs contain a market condition that makes the number of PRSUs ultimately realizable, dependent on relative total stockholder return over a three-year period, up to a maximum number of shares of common stock to be issued under the award of 200% of the original grant. The weighted average fair value of PRSUs granted during the six months ended December 31, 2016 and 2015 was estimated at \$50.86 and \$53.11 per PRSU, respectively, using a Monte-Carlo simulation valuation model.

(11) Stockholders' Equity

Common Stock. Since the inception of our share repurchase programs and through December 31, 2016, we have repurchased a total of 41.1 million shares at a cost of \$1.5 billion. 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. We have temporarily suspended our share repurchase program due to recent acquisitions. Accordingly, we did not repurchase any shares during the six months ended December 31, 2016. There is no expiration date for this program, and the program may be accelerated, suspended, delayed or discontinued at any time at the discretion of our board of directors. At December 31, 2016, 13.6 million additional shares can be repurchased under the approved share repurchase program.

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Preferred Stock. In April 1997, the board of directors designated 2,000,000 shares of our \$0.01 par value preferred stock as Series A Junior Participating Preferred Stock. No shares were issued or outstanding at December 31, 2016 and June 30, 2016.

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 ResMed Inc. 2009 Incentive Award Plan (the 2009 Plan). The options have expiration dates of seven years from the date of grant and the options and restricted stock units vest over one to 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 43.7 million shares. The number of securities remaining available for future issuance under the 2009 Plan at December 31, 2016 is 11.8 million. The number of shares of our common stock available for issuance under the 2009 Plan will be reduced by (i) 2.8 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, that 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, when up to 4.5 million shares of our common stock may be granted).

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

At December 31, 2016, there were \$89.9 million in unrecognized compensation costs related to unvested stock-based compensation arrangements. This is expected to be recognized over a weighted average period of 2.7 years. The aggregate intrinsic value of the stock-based compensation arrangements outstanding and exercisable at December 31, 2016 was \$149.7 million and \$30.8 million, respectively. The aggregate intrinsic value of the options exercised during the six months ended December 31, 2016 and 2015, was \$13.7 million and \$25.3 million, respectively.

The following table summarizes option activity during the six months ended December 31, 2016:

| | | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term in Years |
|--------------------------------------|-----------|------------------------------------|--|
| Outstanding at beginning of period | 1,924,229 | \$ 38.70 | 3.2 |
| Granted | 292,132 | 57.76 | |
| Exercised | (371,927) | 28.96 | |
| Forfeited | - | - | |
| Outstanding at end of period | 1,844,434 | \$ 43.69 | 3.8 |
| Exercise price of granted options | \$ 57.76 | | |
| Options exercisable at end of period | 1,302,547 | \$ 38.37 | |

The following table summarizes the activity of restricted stock units during the six months ended December 31, 2016:

| | | Weighted Average Grant- Date Fair Value | Weighted Average Remaining Contractual Term in Years |
|------------------------------------|-----------|--|--|
| Outstanding at beginning of period | 1,861,510 | \$ 50.52 | 1.4 |
| Granted | 790,192 | 53.77 | |
| Vested | (570,857) | 47.66 | |
| Expired | (178,376) | 50.08 | |
| Forfeited | (35,414) | 50.37 | |
| Outstanding at end of period | 1,867,055 | \$ 52.84 | 2.0 |

Employee Stock Purchase Plan (the ESPP). 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 December 31, 2016, the number of shares remaining available for future issuance under the ESPP is 1.0 million shares.

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RESMED INC. AND SUBSIDIARIES**Notes to the Condensed Consolidated Financial Statements****(Unaudited)****(12) 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, at December 31, 2016 and June 30, 2016, using the valuation input hierarchy (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---------|-------------|-------------|-------------|
| Balances at December 31, 2016 | | | | |
| Foreign currency hedging instruments, net | \$ - | \$ (22,038) | \$ - | \$ (22,038) |
| Business acquisition contingent consideration | \$ - | \$ - | \$ (20,507) | \$ (20,507) |
| Balances at June 30, 2016 | | | | |
| Foreign currency hedging instruments, net | \$ - | \$ 4,185 | \$ - | \$ 4,185 |
| Business acquisition contingent consideration | \$ - | \$ - | \$ (10,450) | \$ (10,450) |

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

Foreign currency hedging instruments 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.

During the three months ended December 31, 2016 we recognized a charge of \$10.1 million representing additional contingent consideration associated with the acquisition of Curative Medical Technology Inc. (Curative Medical), following the achievement of performance milestones under the purchase agreement which exceeded our earlier expectations.

The following is a reconciliation of changes in the fair value of contingent consideration for the six months ended December 31, 2016 and 2015 (in thousands):

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| | Six Months Ended December 31, | |
|---|-------------------------------|-------------|
| | 2016 | 2015 |
| Balance at the beginning of the period | \$ (10,450) | \$ (1,584) |
| Acquisition date fair value of contingent consideration | - | (13,107) |
| Changes in fair value included in operating income | (10,076) | 105 |
| Payments | - | 1,120 |
| Foreign currency translation adjustments | 19 | 28 |
| Balance at the end of the period | \$ (20,507) | \$ (13,438) |

We did not have any significant non-financial assets or liabilities measured at fair value on December 31, 2016 or June 30, 2016.

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

(13) Legal Actions and Contingencies

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.

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, and within certain limits, we are liable to the leasing companies in the event of a customer default for unpaid installment receivables transferred to the leasing companies. The gross amount of receivables sold with recourse during the six months ended December 31, 2016 and 2015, amounted to \$42.2 million and \$31.5 million, respectively. The maximum potential amounts of contingent liability under these arrangements at December 31, 2016 and June 30, 2016 were \$16.6 million, and \$12.9 million, respectively. The recourse liability recognized by us at December 31, 2016 and June 30, 2016, in relation to these arrangements was \$0.9 million and \$0.7 million, respectively.

(14) 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 Singapore 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 mainly in Euros, and 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 condensed 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 \$698.3 million and \$612.2 million at December 31, 2016 and June 30, 2016, respectively, to hedge foreign currency fluctuations. These contracts mature at various dates prior to December 31, 2019.

The following table summarizes the amount and location of our derivative financial instruments as of December 31, 2016 and June 30, 2016 (in thousands):

| | December 31, 2016 | June 30, 2016 | Balance Sheet Caption |
|--------------------------------------|-------------------|---------------|----------------------------|
| Foreign currency hedging instruments | \$ 1,393 | \$ 2,346 | Other assets - current |
| Foreign currency hedging instruments | 2,891 | 2,082 | Other assets - non current |
| Foreign currency hedging instruments | (26,322) | (243) | Accrued expenses |

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\$ (22,038) \$ 4,185

The following table summarizes the amount and location of gains (losses) associated with our derivative financial instruments for the six months ended December 31, 2016 and 2015, respectively (in thousands):

| | Gain /(Loss) Recognized | | Income Statement Caption |
|---|-------------------------------|-------------|--------------------------|
| | Six Months Ended December 31, | | |
| | 2016 | 2015 | |
| Foreign currency hedging instruments | \$ (18,713) | \$ (22,953) | Other, net |
| Other foreign-currency-denominated transactions | 21,695 | 24,399 | Other, net |
| | \$ 2,982 | \$ 1,446 | |

We are exposed to credit-related losses in the event of non-performance by counter parties to financial instruments. 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)****(15) Business Combinations****Brightree**

On April 4, 2016 we completed the acquisition of Brightree LLC (Brightree), a provider of cloud-based clinical and business management software for the post-acute care industry, for a total purchase consideration paid of \$804 million. This acquisition has been accounted for as a business combination using purchase accounting and included in our consolidated financial statements from April 4, 2016. The acquisition was funded through cash on-hand, funds available from our revolving credit facility and a new \$300 million senior unsecured one-year term loan credit facility.

We have not completed the purchase price allocation in relation to this acquisition as certain appraisals associated with the valuation of intangible assets 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 during the quarter ending March 31, 2017. The cost of the acquisition was allocated to the assets acquired and liabilities assumed based on estimates of their fair values at the date of acquisition. The goodwill recognized as part of these acquisitions, which is deductible for tax purposes, 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. The preliminary fair values of assets acquired and liabilities assumed, and the estimated useful lives of intangible assets acquired are as follows (in thousands):

| | Brightree | Intangible assets - useful life |
|-------------------------------------|-------------|---------------------------------|
| Current assets | \$ 15,310 | |
| Property, plant and equipment | 1,045 | |
| Tradenames | 28,700 | 10 years |
| In-process research and development | 4,100 | n/a |
| Developed technology | 114,700 | 5 to 6 years |
| Customer relationships | 51,000 | 10 to 15 years |
| Goodwill | 602,996 | |
| Assets acquired | \$ 817,851 | |
| Current liabilities | (9,399) | |
| Deferred revenue | (4,571) | |
| Deferred tax liabilities | - | |
| Total liabilities assumed | \$ (13,970) | |
| Net assets acquired | \$ 803,881 | |

Other Acquisitions

On October 2, 2015 we completed the acquisition of 100% of the shares in Curative Medical, a leading provider of non-invasive ventilation and sleep-disordered breathing medical devices and accessories in China. Curative Medical has its manufacturing base in Suzhou, China, offices in Beijing, Germany and the United States, and a distributor network throughout China and in other select markets.

On November 6, 2015 we completed the acquisition of 100% of the shares in Maribo Medico A/S, a distributor of medical equipment for treating, diagnosing, and managing sleep-disordered breathing and other respiratory disorders in Denmark and the Nordics.

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On November 30, 2015 we completed the acquisition of 100% of the shares in Bennett Precision Tooling Pty Ltd, an Australian based company that designs and manufactures tools specializing in applications for Liquid Silicon Rubber.

On January 29, 2016 we completed the acquisition of 100% of the shares in Inova Labs Inc. (Inova Labs), a medical device company specializing in the development and commercialization of innovative oxygen therapy products.

These acquisitions have been accounted for as business combinations using purchase accounting and are included in our consolidated financial statements from their respective acquisition dates. The acquisitions, individually and collectively, are not considered a material business combination and accordingly pro forma information is not provided. The acquisitions were funded through cash on-hand and by drawing on our existing credit facility.

Except for the purchase price allocation associated with the Inova Labs acquisition, we have completed the purchase price allocation in relation to all these acquisitions. We expect to complete our purchase price allocation for Inova Labs during the quarter ending March 31, 2017. We do not believe that the completion of this work will materially modify the preliminary purchase price allocation for Inova Labs. The cost of the acquisitions was allocated to the assets acquired and liabilities assumed based on estimates of their fair values at the date of acquisition. The goodwill recognized as part of these acquisitions, which is not deductible for tax purposes, 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**Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

The fair values of assets acquired and liabilities assumed, and the estimated useful lives of intangible assets acquired are as follows (in thousands):

| | All Other | Intangible assets - useful life |
|-------------------------------|-------------|---------------------------------|
| Current assets | \$ 52,371 | |
| Property, plant and equipment | 5,294 | |
| Tradenames | 17,400 | 7 years |
| Non-compete | 1,400 | 5 years |
| Developed technology | 20,515 | 5 years |
| Customer relationships | 37,303 | 5 to 8 years |
| Goodwill | 191,215 | |
| Assets acquired | \$ 325,498 | |
| Current liabilities | (21,147) | |
| Debt assumed | (21,201) | |
| Deferred revenue | (4,283) | |
| Deferred tax liabilities | (19,207) | |
| Total liabilities assumed | \$ (65,838) | |
| Net assets acquired | \$ 259,660 | |

(16) Restructuring Expenses

During the three and six months ended December 31, 2016 we recognized restructuring expenses of \$4.4 million associated with the reorganization of our global research and development activities. The restructure cost consisted primarily of severance payments to employees in our German research and development facility and associated project cancellation costs.

During the three and six months ended December 31, 2015 we incurred restructuring expenses of \$6.9 million associated with rationalizing our European research and development operations and manufacturing facilities. The restructure cost consisted primarily of severance payments and an asset write-down of a legacy manufacturing facility.

(17) Subsequent Events**Credit Facility**

On January 9, 2017, we entered into a second amendment to our credit agreement with our existing lenders, including MUFG Union Bank, N.A. as successor in interest to Union Bank, N.A., as Administrative Agent, Joint Lead Arranger, Swing Line Lender and L/C Issuer; and HSBC Bank USA, National Association, as Syndication Agent and Joint Lead Arranger. The second amendment, among other things, increases the size of our senior unsecured revolving credit facility from \$1.0 billion to \$1.3 billion, with an uncommitted option to increase the revolving credit facility by an additional \$300 million. We expect to use the available funds to repay the term loan when it matures in April 2016.

Litigation Settlement Expenses

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On January 20, 2017, we reached an agreement with Chinese manufacturer, BMC Medical, and its US distributor, 3B to settle all outstanding disputes. The material terms of the settlement are:

ResMed to pay 3B the amount of \$8.5 million to settle all claims in the Florida case, including claims against our three customers. As the matter existed at December 31, 2016, we have recognized a charge of \$8.5 million (\$5.4 million, net of tax) to our operating income for the three months ended December 31, 2016.

We agreed that for five years from the date of the agreement, we will not initiate legal suit against BMC for patent infringement for selling their range of devices and masks that were the subject of the current dispute. BMC agreed to pay us royalties on the sale of those products in the United States.

Mutual release and dismissal of all current litigation, worldwide, including all validity challenges. It was agreed that neither party will initiate legal suit against the other for a period of five years without a 90 day meet and confer process.

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Item 2

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, intend, anticipate, will continue, will, estimate, plan, 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, pending or consummated acquisitions and the development of new markets for our products, such as cardiovascular and stroke markets. These forward-looking statements are made in accordance with 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. Forward-looking statements reflect the views of our management at the time the 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, 2016 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. If 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 our 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 for the fiscal year ended June 30, 2016, in addition to the other cautionary statements and risks described elsewhere in this report and in our other filings with the Securities and Exchange Commission (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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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 and six months ended December 31, 2016. Management's discussion and analysis of financial condition and results of operations is intended to help the reader understand the results of operations and financial condition of ResMed Inc. Management's discussion and analysis is provided as a supplement to, and should be read in conjunction with, the selected financial data and condensed consolidated financial statements and notes, included in this report.

We are a global leader in the development, manufacturing, distribution and marketing of medical devices and cloud-based software applications that diagnose, treat and manage respiratory disorders including sleep disordered breathing (SDB), chronic obstructive pulmonary disease, neuromuscular disease and other chronic diseases. SDB includes obstructive sleep apnea and other respiratory disorders that occur during sleep. Our products and solutions are designed to improve patient quality of life, reduce the impact of chronic disease and lower healthcare costs as global healthcare systems continue to drive a shift in care from hospitals to the home and lower cost settings. Our cloud-based software digital health applications, along with our devices are designed to provide connected care to improve patient outcomes and efficiencies for our customers.

Since the development of continuous positive airway pressure therapy, we have expanded our business by developing or acquiring a number of products and solutions for a broader range of respiratory disorders including technologies to be applied in medical and consumer products, ventilation devices, diagnostic products, mask systems for use in the hospital and home, headgear and other accessories, dental devices, portable oxygen concentrators and cloud-based software informatics solutions to manage patient outcomes and customer and provider business processes. Our growth has been fueled by geographic expansion, our research and product development efforts, acquisitions and an increasing awareness of SDB and respiratory conditions like chronic obstructive pulmonary disease as significant health concerns. During the three months ended December 31, 2016, we invested \$38.2 million on research and development activities with a continued focus on the development and commercialization of new, innovative products and solutions that improve patient outcomes, create efficiencies for our customers and help physicians and providers better manage chronic disease and lower healthcare costs.

During the three months ended December 31, 2016, we released our latest generation of nasal and full face masks, AirFit N20 nasal mask and AirFit F20 full face mask, designed to improve mask fit, comfort and ease of use.

During the three months ended December 31, 2016, our net revenue increased by 17% compared to the three months ended December 31, 2015. Gross margin was 58.3% for the three months ended December 31, 2016 compared to 58.6% for the three months ended December 31, 2015. Diluted earnings per share for the three months ended December 31, 2016 was \$0.54 per share, compared to \$0.68 per share for the three months ended December 31, 2015.

At December 31, 2016, our cash and cash equivalents totaled \$788.1 million, our total assets were \$3.3 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. dollar 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 for the three months ended December 31, 2016 increased to \$530.4 million from \$454.5 million for the three months ended December 31, 2015, an increase of \$75.9 million or 17% (an 18% increase on a constant currency basis). Net revenue for the three months ended December 31, 2016 includes revenue of \$33.8 million from Brightree's operations. Excluding revenue attributable to Brightree, net revenue for the three months ended December 31, 2016 was \$496.6 million, an increase of \$42.1 million or 9% compared to the three months ended December 31, 2015 (a 10% increase on a constant currency basis). The increase in net revenue was attributable to an increase in unit sales of our devices, masks and accessories, partially offset by a decline in average selling prices. Movements in international currencies against the U.S. dollar negatively impacted net revenues by approximately \$5.4 million for the three months ended December 31, 2016.

Net revenue in North and Latin America for the three months ended December 31, 2016 increased to \$326.7 million from \$269.5 million for the three months ended December 31, 2015, an increase of \$57.2 million or 21%. Excluding revenue attributable to Brightree, net revenue in North and Latin America for the three months ended December 31, 2016 was \$293.0 million, an increase of \$23.4 million or 9%. The increase in net revenue in North and Latin America, excluding revenue attributable to Brightree, is primarily due to an increase in unit sales of our devices, masks and accessories, partially offset by a decline in average selling prices.

Net revenue in markets outside North and Latin America increased for the three months ended December 31, 2016 to \$203.7 million from \$185.0 million for the three months ended December 31, 2015, an increase of \$18.7 million or 10% (a 13% increase on a constant currency basis). The constant currency increase in sales outside North and Latin America predominantly reflects an increase in unit sales of our devices, masks and accessories, partially offset by a decline in average selling prices.

Net revenue from devices for the three months ended December 31, 2016 increased to \$301.0 million from \$260.0 million for the three months ended December 31, 2015, an increase of 16%, including an increase of 13% in North and Latin America and an increase of 19% outside North and Latin America (a 21% increase on a constant currency basis). Net revenue from masks and other accessories for the three months ended December 31, 2016 increased to \$195.6 million from \$194.5 million for the three months ended December 31, 2015, an increase of 1%, including an increase of 4% in North and Latin America and a decrease of 7% outside North and Latin America (a 4% decrease on a constant currency basis). Excluding the impact of foreign currency movements, device sales for the three months ended December 31, 2016 increased by 17%, and masks and accessories sales increased by 2%, compared to the three months ended December 31, 2015.

The following table summarizes the percentage movements in our net revenue, excluding revenue attributable to Brightree, for the three months ended December 31, 2016 compared to the three months ended December 31, 2015:

| | North and Latin America | Markets outside North and Latin America | Total | Markets outside North and Latin America (Constant Currency)* | Total (Constant Currency)* |
|-----------------------------|----------------------------|--|-------|---|----------------------------------|
| Devices | 13% | 19% | 16% | 21% | 17% |
| Masks and other accessories | 4% | -7% | 1% | -4% | 2% |
| Total | 9% | 10% | 9% | 13% | 10% |

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

Net revenue for the six months ended December 31, 2016, was \$995.8 million, compared to \$866.2 million for the six months ended December 31, 2015, an increase of 15%. Movements in international currencies against the U.S. dollar unfavorably impacted net revenue by approximately \$7.1 million during the six months ended December 31, 2016. Excluding the impact of unfavorable currency movements, total

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revenue for the six months ended December 31, 2016 increased by 16% compared to the six months ended December 31, 2015. For the six months ended December 31, 2016, revenue from sales of devices increased by 12% compared to the six months ended December 31, 2015, comprised of an increase of 12% in North and Latin America and a 13% increase elsewhere (a 14% increase in constant currency terms). For the six months ended December 31, 2016, revenue from masks and other accessories increased by 1% compared to the six months ended December 31, 2015, comprised of a 2% increase in North and Latin America and a 3% decrease elsewhere (a 0% increase in constant currency terms).

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The following table summarizes the percentage movements in our net revenue, excluding revenue attributable to Brightree, for the six months ended December 31, 2016 compared to the six months ended December 31, 2015:

| | North and Latin America | Markets outside North and Latin America | Total | Markets outside North and Latin America (Constant Currency)* | Total (Constant Currency)* |
|-----------------------------|----------------------------|--|-------|---|----------------------------------|
| Devices | 12% | 13% | 12% | 14% | 13% |
| Masks and other accessories | 2% | -3% | 1% | 0% | 2% |
| Total | 7% | 7% | 7% | 10% | 8% |
| Gross Profit | | | | | |

Gross profit increased for the three months ended December 31, 2016 to \$309.1 million from \$266.5 million for the three months ended December 31, 2015, an increase of \$42.6 million or 16%. Gross profit as a percentage of net revenue for the three months ended December 31, 2016 was 58.3% compared to 58.6% for the three months ended December 31, 2015.

Gross profit increased for the six months ended December 31, 2016 to \$578.3 million from \$505.1 million for the six months ended December 31, 2015, an increase of \$73.1 million or 14%. Gross profit as a percentage of net revenue for the six months ended December 31, 2016 decreased to 58.1% from 58.3% for the six months ended December 31, 2015.

The decrease in gross margins was primarily due to an unfavorable product mix as sales of our lower margin products represented a higher proportion of our sales and declines in our average selling prices, partly offset by manufacturing and procurement efficiencies and an incremental contribution from the Brightree acquisition.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased for the three months ended December 31, 2016 to \$139.3 million from \$118.2 million for the three months ended December 31, 2015, an increase of \$21.1 million or 18%. Selling, general and administrative expenses were favorably impacted by the movement of international currencies against the U.S. dollar, which decreased our expenses by approximately \$0.3 million, as reported in U.S. dollars. Excluding the impact of foreign currency movements, selling, general and administrative expenses for the three months ended December 31, 2016 increased by 18% compared to the three months ended December 31, 2015. Excluding the incremental selling, general and administrative expenses attributed to our recent acquisitions, selling, general and administrative for the quarter increased by 10% in constant currency terms. Selling, general and administrative expenses, as a percentage of net revenue, were 26.3% for the three months ended December 31, 2016, compared to 26.0% for the three months ended December 31, 2015.

Selling, general and administrative expenses increased for the six months ended December 31, 2016 to \$268.2 million from \$229.3 million for the six months ended December 31, 2015, an increase of \$38.9 million or 17%. The selling, general and administrative expenses were unfavorably impacted by the movement of international currencies against the U.S. dollar, which increased our expenses by approximately \$0.5 million, as reported in U.S. dollars. Excluding the impact of foreign currency movements, selling, general and administrative expenses for the six months ended December 31, 2016 increased by 17% compared to the six months ended December 31, 2015. Selling, general and administrative expenses, as a percentage of net revenue, were 26.9% for the six months ended December 31, 2016, compared to 26.5% for the six months ended December 31, 2015.

The constant currency increase in selling, general and administrative expenses was primarily due to additional expenses associated with the consolidation of recent acquisitions, an increase in the number of personnel to support our commercial activities and increased legal expenses.

Research and Development Expenses

Research and development expenses increased for the three months ended December 31, 2016 to \$38.2 million from \$29.0 million for the three months ended December 31, 2015, an increase of \$9.2 million, or 32%. Research and development expenses were unfavorably impacted by the movement of international currencies against the U.S. dollar, which increased our expenses by approximately \$1.1 million for the three months ended December 31, 2016, as reported in U.S. dollars. Excluding the impact of foreign currency movements, research and development expenses increased by 28% compared to the three months ended December 31, 2015. Excluding the incremental research and development expenses attributed to our recent acquisitions, research and development expenses for the quarter increased by 11% in constant currency terms. Research and development expenses, as a percentage of net revenue, were 7.2% for the three months ended December 31, 2016, compared to 6.4% for the three months ended December 31, 2015.

Research and development expenses increased for the six months ended December 31, 2016 to \$72.6 million from \$56.2 million for the six months ended December 31, 2015, an increase of \$16.5 million or 29%. The research and development expenses were unfavorably impacted by the movement of international currencies against the U.S. dollar, which increased our expenses by approximately \$2.5

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million for the six months ended December 31, 2016, as reported in U.S. dollars. Excluding the impact of foreign currency movements, our research and development expenses increased by 25% compared to the six months ended December 31, 2015. Research and development expenses, as a percentage of net revenue, were 7.3% for the six months ended December 31, 2016, compared to 6.5% for the six months ended December 31, 2015.

The increase in research and development expenses in constant currency terms was primarily due to additional expenses associated with the consolidation of recent acquisitions, an increase in the number of research and development personnel and increases in materials and tooling costs incurred to facilitate development of new products.

Restructuring Expenses

During the three and six months ended December 31, 2016 we recognized restructuring expenses of \$4.4 million associated with the reorganization of our global research and development activities. The restructure cost consisted primarily of severance payments to employees in our German research and development facility and associated project cancellation costs.

During the three and six months ended December 31, 2015 we incurred restructuring expenses of \$6.9 million associated with rationalizing our European research and development operations and manufacturing facilities. The restructure cost consisted primarily of severance payments and an asset write-down of a legacy manufacturing facility.

Litigation Settlement Expenses

On January 20, 2017, we reached an agreement with Chinese manufacturer, BMC Medical, and its US distributor, 3B to settle all outstanding disputes. The material terms of the settlement are:

ResMed to pay 3B the amount of \$8.5 million to settle all claims in the Florida case, including claims against our three customers. Accordingly we have recognized a charge of \$8.5 million (\$5.4 million, net of tax) to our operating income for the three months ended December 31, 2016.

We agreed that for five years from the date of the agreement, we will not initiate legal suit against BMC for patent infringement for selling their current range of devices and masks that were the subject of the current dispute. BMC agreed to pay us royalties on the sale of those products in the United States.

Mutual release and dismissal of all current litigation, worldwide, including all validity challenges. It was agreed that neither party will initiate legal suit against the other for a period of five years without a 90 day meet and confer process.

Acquisition-Related Expenses

During the three months ended December 31, 2016 we recognized a charge of \$10.1 million representing additional contingent consideration associated with the acquisition of Curative Medical, following the achievement of performance milestones under the purchase agreement, which exceeded our earlier expectations.

Amortization of Acquired Intangible Assets

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Amortization of acquired intangible assets for the three and six months ended December 31, 2016 totaled \$11.7 million and \$23.4 million, respectively, compared to \$4.4 million and \$6.7 million for the three and six months ended December 31, 2015. The increase in amortization expense was attributable to our recent acquisitions, in particular Brightree, Curative Medical and Inova Labs.

Total Other (Loss) Income, Net

Total other (loss) income, net for the three and six months ended December 31, 2016 was a loss of \$0.7 million and \$1.9 million, respectively compared to an income of \$5.7 million and \$7.1 million, for the three and six months ended December 31, 2015. The loss was attributable to an increase in interest expense due to higher borrowings and lower interest income resulting from lower interest rates on cash balances held which were partially offset by foreign currency gains.

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

Our effective income tax rate for the three months ended December 31, 2016 was approximately 20.2% as compared to approximately 15.9% for the three months ended December 31, 2015. Our effective income tax rate for the six months ended December 31, 2016 was approximately 19.2% as compared to approximately 16.3% for the six months ended December 31, 2015. Our effective tax rate was impacted by tax benefits related to the vesting or settlement of employee share-based awards, which reduced our income tax expenses by \$Nil and \$2.5 million, respectively, for the three and six months ended December 31, 2016 as compared to \$5.1 million and \$7.6 million, respectively, for the three and six months ended December 31, 2015. Our effective income tax rate was also affected by the geographic mix of our taxable income, including the lower taxes associated with our Singapore and Malaysia manufacturing operations. Our Singapore and Malaysia operations operate under certain tax holidays and tax incentive programs that will expire in whole or in part at various dates through June 30, 2020. As of December 31, 2016, we have not provided for U.S. income taxes for the undistributed earnings of our foreign subsidiaries. We intend these earnings to be permanently reinvested outside the United States.

Net Income and Earnings per Share

As a result of the factors above, our net income for the three months ended December 31, 2016 was \$76.7 million compared to net income of \$95.6 million for the three months ended December 31, 2015, a decrease of 20% over the three months ended December 31, 2015. Our net income for the six months ended December 31, 2016 was \$152.8 million compared to net income of \$178.5 million for the six months ended December 31, 2015, a decrease of 14% over the six months ended December 31, 2015.

Our diluted earnings per share for the three and six months ended December 31, 2016 were \$0.54 and \$1.08 per diluted share, respectively, compared to \$0.68 and \$1.26 for the three and six months ended December 31, 2015.

Liquidity and Capital Resources

As of December 31, 2016 and June 30, 2016, we had cash and cash equivalents of \$788.1 million and \$731.4 million, respectively. Working capital was \$837.9 million and \$781.7 million, at December 31, 2016 and June 30, 2016, respectively.

As of December 31, 2016 and June 30, 2016, our cash and cash equivalent balances held within the United States amounted to \$40.3 million and \$40.9 million, respectively. Our remaining cash and cash equivalent balances at December 31, 2016 and June 30, 2016, of \$747.8 million and \$690.5 million, respectively, were held by our non-U.S. subsidiaries and would be subject to tax if repatriated. If these funds were needed for our operations in the United States, we would be required to accrue and pay United States taxes to repatriate these funds. However, we intend to permanently reinvest these funds outside of the United States and our current plans do not demonstrate a need to repatriate them to fund our United States operations. Our cash and cash equivalent balances are held at highly rated financial institutions.

Inventories at December 31, 2016 were \$253.1 million, an increase of \$28.7 million or 13% from the June 30, 2016 balance of \$224.5 million. The increase in inventories was mainly to support the increase in unit sales.

Accounts receivable at December 31, 2016 were \$384.0 million, an increase of \$1.9 million or 0.5% compared to the June 30, 2016 balance of \$382.1 million. Accounts receivable days outstanding of 61 days at December 31, 2016 were lower than the 63 days at June 30, 2016. Our allowance for doubtful accounts as a percentage of total accounts receivable at December 31, 2016 was 2.9%, compared to 3.2% at June 30, 2016.

During the six months ended December 31, 2016, we generated cash of \$206.1 million from operations compared to \$280.2 million for the six months ended December 31, 2015. The lower level of cash generated from operations during the six months ended December 31, 2016, was primarily driven by the increase in our inventories and the timing of our corporate income tax payments. Movements in foreign currency exchange rates during the six months ended December 31, 2016 had the effect of decreasing our cash and cash equivalents by \$28.7 million, as

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reported in U.S. dollars. We have temporarily suspended our share repurchase program due to recent acquisitions. As a result, we did not repurchase any shares during the six months ended December 31, 2016. During the six months ended December 31, 2016 and 2015, we also paid dividends totaling \$92.9 million and \$84.1 million, respectively.

Capital expenditures for the six months ended December 31, 2016 and 2015 amounted to \$29.2 million and \$30.9 million, respectively. The capital expenditures for the six months ended December 31, 2016 primarily reflected investment in computer hardware and software, production tooling, equipment and machinery, and rental and loan equipment. At December 31, 2016, our balance sheet reflects net property, plant and equipment of \$375.9 million compared to \$384.3 million at June 30, 2016.

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Details of contractual obligations at December 31, 2016 are as follows:

| In \$000 s | Total | 2017 | Payments Due by December 31, | | | | Thereafter |
|-----------------------------|--------------|------------|------------------------------|----------|----------|----------|------------|
| | | | 2018 | 2019 | 2020 | 2021 | |
| Short-term debt | \$ 300,000 | \$ 300,000 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Interest on Short-Term Debt | 1,754 | 1,754 | - | - | - | - | - |
| Long Term Debt | 870,000 | - | 870,000 | - | - | - | - |
| Interest on Long Term Debt | 36,683 | 20,009 | 16,674 | - | - | - | - |
| Operating Leases | 59,988 | 18,187 | 14,800 | 8,404 | 5,129 | 4,138 | 9,330 |
| Capital Leases | 598 | 275 | 178 | 105 | 40 | - | - |
| Purchase Obligations | 178,269 | 178,185 | 84 | - | - | - | - |
| Total | \$ 1,447,292 | \$ 518,410 | \$ 901,736 | \$ 8,509 | \$ 5,169 | \$ 4,138 | \$ 9,330 |

Details of other commercial commitments at December 31, 2016 are as follows:

| In \$000 s | Total | 2017 | Amount of Commitment Expiration Per Period | | | | Thereafter |
|--------------------------|-----------|----------|--|------|-------|--------|------------|
| | | | 2018 | 2019 | 2020 | 2021 | |
| Standby Letter of Credit | \$ 13,124 | \$ 2,182 | \$ 6,481 | \$ - | \$ - | \$ - | \$ 4,461 |
| Guarantees* | 12,298 | 112 | 1,055 | - | 64 | 132 | 10,935 |
| Total | \$ 25,422 | \$ 2,294 | \$ 7,536 | \$ - | \$ 64 | \$ 132 | \$ 15,396 |

* The above guarantees mainly relate to requirements under contractual obligations with insurance companies transacting with our German subsidiaries and guarantees provided under our facility leasing obligations.

Credit Facility

On October 31, 2013, we entered into a revolving credit agreement, as borrower, with lenders, including Union Bank, N.A., as administrative agent, joint lead arranger, swing line lender and letters of credit issuer, and HSBC Bank USA, National Association, as syndication agent and joint lead arranger, providing for a revolving credit facility of \$700 million, with an uncommitted option to increase the revolving credit facility by an additional \$300 million. On April 4, 2016, in connection with our acquisition of Brightree LLC (Brightree), we entered into a first amendment to the revolving credit agreement to increase the size of the revolving credit facility from \$700 million to \$1 billion, with an uncommitted option to increase the revolving credit facility by an additional \$300 million, and to make other modifications to provide for the acquisition of Brightree. The credit facility terminates on October 31, 2018, when 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 LIBOR plus 1.0% to 2.0% (depending on the then-applicable leverage ratio). At December 31, 2016, the interest rate that was being charged on the outstanding principal amount was 2.3%. A commitment fee of 0.15% to 0.25% (depending on the then-applicable leverage ratio) applies on the unused portion of the credit facility. The credit facility also includes a \$25 million sublimit for letters of credit.

On January 9, 2017, we entered into a second amendment to our agreement with our existing lenders, including MUFG Union Bank, N.A. as successor in interest to Union Bank, N.A., as Administrative Agent, Joint Lead Arranger, Swing Line Lender and L/C Issuer; and HSBC Bank USA, National Association, as Syndication Agent and Joint Lead Arranger. The second amendment, among other things, increases the size of our senior unsecured revolving credit facility from \$1.0 billion to \$1.3 billion, with an uncommitted option to increase the revolving credit facility by an additional \$300 million.

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Our obligations under the revolving credit agreement (as amended) are unsecured but are guaranteed by certain of our direct and indirect U. S. subsidiaries, including ResMed Corp., ResMed Motor Technologies Inc., Birdie Inc., Inova Labs, Inc., Brightree, Brightree Services LLC, Brightree Home Health & Hospice LLC and Strategic AR LLC, under an unconditional guaranty. The credit agreement contains customary covenants, including certain financial covenants and an obligation that we maintain certain financial ratios, including a maximum leverage ratio of funded debt to EBITDA (as defined in the credit agreement) and an interest coverage ratio.

At December 31, 2016, we were in compliance with the debt covenants under the revolving credit agreement and there was \$870.0 million outstanding under the revolving credit facility.

Term Loan

On April 4, 2016, in connection with the Brightree acquisition, we also entered into a credit agreement (the term loan credit agreement) providing a \$300 million senior unsecured one-year term loan credit facility.

Our obligations under the term loan credit agreement are unsecured but are guaranteed by certain of our direct and indirect U.S. subsidiaries, including ResMed Corp., ResMed Motor Technologies Inc., Birdie Inc., Inova Labs, Inc., Brightree, Brightree Services LLC, Brightree Home Health & Hospice LLC and Strategic AR LLC, under an unconditional guaranty. The term loan credit facility terminates on April 3, 2017, when all unpaid principal and interest under the loans must be repaid. The outstanding principal amount due under the

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term loan credit facility will bear interest at a rate equal to LIBOR plus 1.0% to 2.0% (depending on the then-applicable leverage ratio). At December 31, 2016, the interest rate that was being charged on the outstanding principal amount was 2.3%. The term loan 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 (as defined in the term loan credit agreement) and an interest coverage ratio.

The proceeds from the funding of the term loan credit facility were used to pay a portion of the acquisition consideration for the Brightree acquisition, as well as to pay fees and expenses in connection with the acquisition, the amendment to the revolving credit agreement and the term loan credit agreement.

At December 31, 2016, we were in compliance with the debt covenants under the term loan credit agreement and there was \$300.0 million outstanding under the term loan credit agreement. As disclosed above we have increased our senior unsecured revolving credit facility from \$1.0 billion to \$1.3 billion and expect to be able to use the available funds to repay the term loan when it matures.

We expect to satisfy all of our liquidity requirements through a combination of cash on hand, cash generated from operations and debt facilities.

Common Stock

We have temporarily suspended our share repurchase program due to recent acquisitions. Accordingly, we did not repurchase any shares during the six months ended December 31, 2016. There is no expiration date for this program, and the program may be accelerated, suspended, delayed or discontinued at any time at the discretion of our board of directors. During the six months ended December 31, 2015, we repurchased 1.9 million shares at a cost of \$102.1 million.

As of December 31, 2016, we have repurchased a total of 41.1 million shares at a cost of \$1.5 billion. 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 December 31, 2016, 13.6 million additional shares can be repurchased under the current share repurchase program.

Critical Accounting Principles and Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and judgments that affect our reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. On an ongoing basis we evaluate our estimates, including those related to allowance for doubtful accounts, inventory reserves, warranty obligations, goodwill, potentially impaired assets, intangible assets, income taxes and contingencies.

We state these accounting policies in the notes to the financial statements and at relevant sections in this discussion and analysis. The estimates are based on the information that is currently available to us and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could vary from those estimates under different assumptions or conditions.

For a full discussion of our critical accounting policies, see our Annual Report on Form 10-K for the year ended June 30, 2016.

Recently Issued Accounting Pronouncements

See note 1 to the condensed consolidated financial statements for a description of recently issued accounting pronouncements, including the expected dates of adoption and estimated effects on our results of operations, financial positions and cash flows.

Off-Balance Sheet Arrangements

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As of December 31, 2016, we are not involved in any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC.

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Item 3

RESMED INC. AND SUBSIDIARIES**Quantitative and Qualitative Disclosures About Market Risk****Foreign Currency Market Risk**

Our reporting currency is the U.S. dollar, although the financial statements of our non-U.S. subsidiaries are maintained in their respective local currencies. We transact business in various foreign currencies, including a number of major European currencies as well as the Australian and Singapore dollar. We have significant foreign currency exposure through our Australian and Singapore manufacturing activities and our 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 goal of this hedging program is to economically manage the financial impact of foreign currency exposures predominantly denominated in euros, Australian dollars 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 enter into financial instruments for trading or speculative purposes. The foreign currency derivatives portfolio is recorded in the condensed consolidated balance sheets at fair value and included in other assets or other liabilities. All movements in the fair value of the foreign currency derivatives are recorded within other income, net, on our condensed consolidated statements of income.

The table below provides information (in U.S. dollars) on our significant foreign-currency-denominated balances by legal entity functional currency as of December 31, 2016 (in thousands):

| | Australian Dollar (AUD) | U.S. Dollar (USD) | Euro (EUR) | Singapore Dollar (SGD) | Canadian Dollar (CAD) | Great Britain Pound (GBP) | Chinese Yuan (CNY) |
|-------------------------|-------------------------------|-------------------------|---------------|------------------------------|-----------------------------|---------------------------------|--------------------------|
| AUD Functional: | | | | | | | |
| Assets | - | 308,351 | 154,351 | - | - | - | 17,759 |
| Liabilities | - | (44,118) | (74,052) | (37) | (366) | (6,040) | (330) |
| Forward Contracts | - | (277,000) | (77,867) | - | - | 9,866 | (17,279) |
| Net Total | - | (12,767) | 2,432 | (37) | (366) | 3,826 | 150 |
| USD Functional: | | | | | | | |
| Assets | - | - | 22 | - | 13,787 | - | - |
| Liability | - | - | (234) | - | (1,562) | - | - |
| Forward Contracts | - | - | - | - | (11,158) | - | - |
| Net Total | - | - | (212) | - | 1,067 | - | - |
| EURO Functional: | | | | | | | |
| Assets | 494 | 603 | - | - | - | 416 | - |
| Liability | (9) | (1,265) | - | - | - | (105) | - |
| Forward Contracts | - | - | - | - | - | (3,700) | - |
| Net Total | 485 | (662) | - | - | - | (3,389) | - |
| GBP Functional: | | | | | | | |
| Assets | - | 714 | 69,592 | - | - | - | - |
| Liability | - | (1,587) | (67,746) | - | - | - | - |
| Forward Contracts | - | - | - | - | - | - | - |
| Net Total | - | (873) | 1,846 | - | - | - | - |
| SGD Functional : | | | | | | | |
| Assets | 1,503 | 282,084 | 79,100 | - | - | - | 476 |
| Liability | (1,758) | (120,160) | (33,174) | - | - | - | - |
| Forward Contracts | - | (148,000) | (44,195) | - | - | - | - |
| Net Total | (255) | 13,924 | 1,731 | - | - | - | 476 |

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RESMED INC. AND SUBSIDIARIES**Quantitative and Qualitative Disclosures About Market Risk**

The table below provides information about our foreign currency derivative financial instruments and presents the information in U.S. dollar equivalents. The table summarizes information on instruments and transactions that are sensitive to foreign currency exchange rates, including foreign currency call options, collars and forward contracts held at December 31, 2016. The table presents the notional amounts and weighted average exchange rates by contractual maturity dates for our foreign currency derivative financial instruments, including the forward contracts used to hedge our foreign currency denominated assets and liabilities. These notional amounts generally are used to calculate payments to be exchanged under the contracts (in thousands, except exchange rates).

| Foreign Exchange Contracts | Year 1 | Year 2 | Year 3 | Total | Fair Value Assets / (Liabilities) | |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|--------------------------------------|---------------|
| | | | | | December 31, 2016 | June 30, 2016 |
| Receive AUD/Pay USD | | | | | | |
| Contract amount | 277,000 | - | - | 277,000 | (16,146) | 1,262 |
| Ave. contractual exchange rate | AUD 1 = USD 0.7634 | | | AUD 1 = USD 0.7634 | | |
| Receive AUD/Pay Euro | | | | | | |
| Contract amount | 119,960 | 42,090 | 21,050 | 183,100 | 3,577 | 2,325 |
| Ave. contractual exchange rate | AUD 1 = Euro 0.6907 | AUD 1 = Euro 0.6510 | AUD 1 = Euro 0.6794 | AUD 1 = Euro 0.6799 | | |
| Receive SGD/Pay Euro | | | | | | |
| Contract amount | 44,195 | - | - | 44,195 | 185 | 35 |
| Ave. contractual exchange rate | SGD 1 = Euro 0.6523 | | | SGD 1 = Euro 0.6523 | | |
| Receive SGD/Pay USD | | | | | | |
| Contract amount | 148,000 | - | - | 148,000 | (9,613) | 792 |
| Ave. contractual exchange rate | SGD 1 = USD 0.7394 | | | SGD 1 = USD 0.7394 | | |
| Receive GBP/Pay AUD | | | | | | |
| Contract amount | 9,866 | - | - | 9,866 | 71 | (120) |
| Ave. contractual exchange rate | AUD 1 = GBP 0.5855 | | | AUD 1 = GBP 0.5855 | | |
| Receive EUR/Pay GBP | | | | | | |
| Contract amount | 3,700 | - | - | 3,700 | (56) | 11 |
| Ave. contractual exchange rate | EUR 1 = GBP 0.8664 | | | EUR 1 = GBP 0.8664 | | |
| Receive AUD/Pay CNY | | | | | | |
| Contract amount | 17,279 | - | - | 17,279 | (452) | (24) |
| Ave. contractual exchange rate | AUD 1 = CNY 5.1357 | | | AUD 1 = CNY 5.1357 | | |
| Receive AUD/Pay MYR | | | | | | |
| Contract amount | 4,010 | - | - | 4,010 | 40 | - |
| Ave. contractual exchange rate | AUD 1 = MYR | | | AUD 1 = MYR 3.2040 | | |
| Receive USD/Pay CAD | | | | | | |
| Contract amount | 11,158 | - | - | 11,158 | 356 | (96) |
| Ave. contractual exchange rate | USD 1 = CAD 1.3028 | | | USD 1 = CAD 1.3028 | | |
| Interest Rate Risk | | | | | | |

We are exposed to risk associated with changes in interest rates affecting the return on our cash and cash equivalents and debt. At December 31, 2016, we held cash and cash equivalents of \$788.1 million principally comprised of bank term deposits and at-call accounts and are invested at both short-term fixed interest rates and variable interest rates. At December 31, 2016, we had total borrowings of \$1,170.0 million, comprising a revolving credit balance of \$870.0 million and a term loan credit balance of \$300.0 million, which are subject to variable interest rates. A hypothetical 10% change in interest rates during the three months ended December 31, 2016, would not have had a material impact on pretax income. We have no interest rate hedging agreements.

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PART I FINANCIAL INFORMATION

Item 4

RESMED INC. AND SUBSIDIARIES

Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports made pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance management necessarily was required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) of the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2016.

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

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RESMED INC. AND SUBSIDIARIES**Item 1 Legal Proceedings**

We are involved in various legal proceedings and claims. Litigation is inherently uncertain. Accordingly, we cannot predict the outcome of these matters. But we do not expect the outcome of these matters to have a material adverse effect on our consolidated financial statements when taken as a whole.

BMC and 3B litigation. ResMed is engaged in disputes with Chinese manufacturer BMC Medical Co., Ltd and its US distributor, 3B Medical, Inc. in several global forums. In 2013, we filed actions in the US and Germany against BMC and 3B to stop the infringement of several ResMed patents.

In 2013, we initiated proceedings in Germany against BMC involving certain devices and mask assemblies we accused of patent infringement. In April 2016, ResMed and BMC settled the case against BMC's infringing mask assemblies when BMC agreed not to sell infringing products in Germany. In May 2016, ResMed settled its infringement action against BMC's flow generators in Germany.

In 2015, BMC's U.S. distributor, 3B Medical, Inc., filed suit in the US District Court for the Middle District of Florida against ResMed Inc. and ResMed Corp. for alleged federal and state antitrust violations. 3B subsequently named three ResMed customers as additional defendants.

In February 2016, BMC filed patent infringement suits in Shanghai, China against ResMed's distribution subsidiary in China. ResMed has filed petitions to invalidate the BMC patents in the China Patent Reexamination Board.

In May 2016, the International Trade Commission initiated an investigation of patent infringement by BMC and 3B, based on alleged infringement of ResMed patents. We filed a companion case in the US District Court for the Southern District of California.

In January 2017, ResMed, BMC, and 3B agreed to settle all pending litigation. Under the settlement of the Florida litigation, ResMed agreed to make a one-time payment of \$8.5 million to 3B to settle all claims against ResMed and the customer defendants in the Florida litigation. Under the intellectual property litigation settlement, BMC and 3B will be permitted to sell their existing products for a limited time, in exchange for royalty payments to ResMed.

The settlement did not include an admission of liability or wrongdoing by any party.

Administrative subpoena. In July 2016, we received a federal administrative subpoena from the Office of Inspector General (OIG) of the Department of Health and Human Services. The subpoena contains a request for documents and other materials that relate primarily to industry offerings of patient resupply software to home medical equipment providers. In November 2016, we received a second subpoena, requesting documents and other materials regarding other promotional programs. We are cooperating with the OIG to respond to its requests for documents and information.

Fisher & Paykel Healthcare patent litigation. ResMed and Fisher & Paykel Healthcare are engaged in patent disputes in several global forums.

In August 2016, Fisher & Paykel HealthCare sued ResMed for patent infringement in US District Court for the Southern District of California, accusing ResMed's Air 10 flow generators, ClimateLine heated tubing, and the Swift FX and Swift LT masks of infringing Fisher & Paykel patents. ResMed denied infringement, has asserted that the patents are invalid, and filed counterclaims for patent infringement against Fisher & Paykel's Simplus, Eson and Eson 2 masks. The case is now stayed, pending resolution of validity proceedings filed by both parties in the US Patent and Trademark Office. In August 2016, ResMed requested, and the US International Trade Commission later instituted, an investigation of patent infringement against the same Fisher & Paykel masks.

Related court cases are now pending in New Zealand, Germany, and the United Kingdom. In August 2016, the Munich district court issued preliminary injunctions temporarily prohibiting sales of Fisher & Paykel's Simplus, Eson and Eson 2 masks in Germany. In November 2016, the court dissolved those preliminary injunctions.

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ResMed and Fisher & Paykel have also filed proceedings in patent offices in the United States, Germany and Europe to invalidate many of the patents being asserted against that party.

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PART II OTHER INFORMATION

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RESMED INC. AND SUBSIDIARIES

Item 1A Risk Factors

The discussion of our business and operations should be read together with the risk factors contained in our annual report on Form 10-K for the fiscal year ended June 30, 2016 which was filed with the SEC and describe the various risks and uncertainties to which we are or may become subject. As of December 31, 2016, there have been no further material changes to such risk factors.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of equity securities. On February 21, 2014, our board of directors approved our current share repurchase program, authorizing us to acquire up to an aggregate of 20.0 million shares of our 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 and subject to applicable legal requirements. There is no expiration date for this program, and the program may be accelerated, suspended, delayed or discontinued at any time at the discretion of our board of directors. All share repurchases after February 21, 2014 have been executed under this program.

We have temporarily suspended our share repurchase program due to recent acquisitions. As a result, we did not repurchase any shares during the six months ended December 31, 2016. However, there is no expiration date for this program, and we may, at any time, elect to resume the share repurchase program as the circumstances allow. Since the inception of the share buyback programs, we have repurchased 41.1 million shares at a total cost of \$1.5 billion.

Item 3 Defaults Upon Senior Securities

None

Item 4 Mine Safety Disclosures

None

Item 5 Other Information

None

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PART II OTHER INFORMATION

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RESMED INC. AND SUBSIDIARIES

Item 6 Exhibits

Exhibits (numbered in accordance with Item 601 of Regulation S-K)

- 3.1 First Restated Certificate of Incorporation of ResMed Inc., as amended. (Incorporated by reference to Exhibit 3.1 to the Registrant's Report on Form 10-Q for the quarter ended September 30, 2013)
- 3.2 Fifth Amended and Restated Bylaws of ResMed Inc. (Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K/A filed on September 17, 2012)
- 10.1 Second Amendment to Credit Agreement dated as of January 9, 2017, by and among ResMed Inc., as borrower, each of the existing lenders party to the Second Amendment, the financial institutions identified on the signature pages thereto as the new lender, MUFG Union Bank, N.A. as successor in interest to Union Bank, N.A., as Administrative Agent, Joint Lead Arranger, Swing Line Lender and L/C Issuer, and HSBC Bank USA, National Association, as Syndication Agent and Joint Lead Arranger (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 12, 2017).
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following financial statements from ResMed Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2016, filed on January 24, 2017, formatted in XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Cash Flows, (v) the Notes to the Condensed Consolidated Financial Statements.

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PART II OTHER INFORMATION

Signatures

Signatures

We have authorized the persons whose signatures appear below to sign this report on our behalf, in accordance with the Securities Exchange Act of 1934.

January 24, 2017

ResMed Inc.

/s/ MICHAEL J. FARRELL

Michael J. Farrell
Chief executive officer
(Principal Executive Officer)

/s/ BRETT A. SANDERCOCK

Brett A. Sandercock
Chief financial officer
(Principal Financial Officer)