

RESPIRONICS INC  
Form DEF 14A  
October 14, 2003

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the Securities**

**Exchange Act of 1934 (Amendment No. \_\_ )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to 167;240.14a-12

# Respironics, Inc.

---

(Name of Registrant as Specified In Its Charter)

---

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

---

2) Aggregate number of securities to which transaction applies:

---

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

---

4) Proposed maximum aggregate value of transaction:

---

5) Total fee paid:

---

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Edgar Filing: RESPIRONICS INC - Form DEF 14A

1) Amount Previously Paid:

---

2) Form, Schedule or Registration Statement No.:

---

3) Filing Party:

---

4) Date Filed:

---

Dear Shareholder:

You are cordially invited to join us for our Annual Meeting of Shareholders to be held this year on Tuesday, November 18, 2003, at 5:15 p.m. (local time) at the Company's Corporate Headquarters facility at 1010 Murry Ridge Lane, Murrysville, Pennsylvania.

The Notice of Annual Meeting of Shareholders and the Proxy Statement that follow describe the business to be conducted at the meeting. We will also report on matters of current interest to our shareholders.

Representatives of the Company will be available after the meeting. Please also take this opportunity to view Respironics products, which will be on display.

**Your vote is important.** Whether you own a few or many shares of Respironics stock, it is important that your shares be represented. If you cannot personally attend, we encourage you to make certain that you are represented at the meeting by signing the accompanying proxy card and promptly returning it in the enclosed envelope.

Very truly yours,

James W. Liken

President and Chief Executive Officer

October 14, 2003

**RESPIRONICS, INC.**

**1010 Murry Ridge Lane**

**Murrysville, Pennsylvania 15668**

---

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

---

The Annual Meeting of Shareholders of Respironics, Inc. will be held at the Company's Corporate Headquarters facility at 1010 Murry Ridge Lane, Murrysville, Pennsylvania on Tuesday, November 18, 2003 at 5:15 p.m. for the following purposes:

- (1) To elect three directors;
- (2) To ratify the selection of auditors to examine the consolidated financial statements of the Company for the fiscal year ending June 30, 2004;
- (3) To approve the adoption of an amendment to the Respironics, Inc. 2000 Stock Incentive Plan to increase the number of shares available for grant by 1,876,000 shares to a total of 3,276,000 shares; and
- (4) To transact such other business as may properly come before the meeting.

Please refer to the accompanying Proxy Statement for a description of the matters to be considered at the meeting.

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

Dorita A. Pishko

*Corporate Secretary*

October 14, 2003

**RESPIRONICS, INC.**

1010 Murry Ridge Lane  
Murrysville, Pennsylvania 15668

---

**PROXY STATEMENT**

---

**Annual Meeting of Shareholders to be Held November 18, 2003**

**GENERAL**

The enclosed proxy is solicited on behalf of the Board of Directors of Respironics, Inc. (the "Company") for use at the Annual Meeting of Shareholders to be held at 5:15 p.m., on Tuesday, November 18, 2003 at the Company's Corporate Headquarters facility at 1010 Murry Ridge Lane, Murrysville, Pennsylvania. The accompanying Notice of Annual Meeting of Shareholders sets forth the purposes of the meeting.

The enclosed proxy may be revoked at any time before its exercise by giving notice of revocation to the Secretary of the Company. The shares represented by proxies in the form solicited by the Board of Directors will be voted at the meeting. If a choice is specified on the proxy with respect to a matter to be voted upon, the shares represented by the proxy will be voted in accordance with that specification. If no choice is specified, the shares will be voted as stated below in this Proxy Statement.

It is expected that this Proxy Statement and the accompanying form of proxy will first be mailed to shareholders of the Company on or about October 17, 2003. The Company's Annual Report to Shareholders for 2003 is enclosed with this Proxy Statement but does not form a part of the proxy soliciting material.

**SHAREHOLDER PROPOSALS FOR 2004 ANNUAL MEETING**

If any shareholder wishes to present a proposal at the 2004 Annual Meeting of Shareholders, the proposal must be received by the Secretary of the Company by June 10, 2004 to be considered for inclusion in the Company's Proxy Statement and form of proxy relating to the 2004 Annual Meeting. The Bylaws of the Company require that any shareholder intending to present a proposal for action at an Annual Meeting must give written notice of the proposal, containing the information specified in the Bylaws, so that it is received by the Company not later than the notice deadline determined under the Bylaws. This notice deadline will generally be 90 days prior to the anniversary of the Company's Proxy Statement for the previous year's annual meeting, or July 14, 2004 for the Company's Annual Meeting in 2004. Any shareholder proposal received by the Secretary of the Company after July 14, 2004 will be considered untimely under Rule 14a-4(c)(1) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934. The 2004 Annual Meeting is presently scheduled for November 16, 2004.

**VOTING SECURITIES AND RECORD DATE**

Holders of the Company's Common Stock of record as of the close of business on October 3, 2003 (the record date ) are entitled to receive notice of and to vote at the 2003 Annual Meeting. On the record date, the Company had outstanding 34,080,901 shares of Common Stock, the holders of which are entitled to one vote per share. These shares outstanding exclude 3,548,281 shares held by the Company in treasury.

**SECURITY OWNERSHIP***Management*

The following table shows the number of shares of Common Stock beneficially owned by each director and nominee for director of the Company, each of the officers of the Company named in the Summary Compensation Table herein and by all directors, nominees and executive officers of the Company as a group, as of the record date. As used herein, beneficial ownership means the sole or shared power to vote, or to direct the voting of, a security, or the sole or shared investment power with respect to a security (i.e., the power to dispose of, or to direct the disposition of, a security). A person is deemed, as of any date, to have beneficial ownership of any security that the person has the right to acquire within 60 days after that date.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Douglas A. Cotter (1)	26,073	0.08%
J. Terry Dewberry (1) (3)	46,055	0.14%
James H. Hardie (1)	44,551	0.13%
Donald H. Jones (1)	42,932	0.13%
Joseph C. Lawyer (1) (4)	22,532	0.07%
James W. Liken (2)	513,954	1.49%
Candace L. Littell (1)	16,430	0.05%
Sean McDonald (1)	9,652	0.03%
Gerald E. McGinnis (5)	597,077	1.75%
John L. Miclot (2)	72,876	0.21%
John C. Miles II (1)	4,392	0.01%
Craig B. Reynolds (2)	122,749	0.36%
Daniel J. Bevevino (2)	52,096	0.15%
William Post (2)	38,422	0.11%
All directors, nominees, and executives officers as a group (18 persons)	1,750,948	5.00%

- (1) Includes shares which would be outstanding upon the exercise of currently exercisable stock options granted under the 1991 Non-Employee Directors Stock Option Plan and the 2000 Stock Incentive Plan in the following amounts: Dr. Cotter, 24,224 shares; Mr. Dewberry, 25,270 shares; Mr. Hardie, 34,424 shares; Mr. Jones, 29,324 shares; Mr. Lawyer, 8,924 shares; Ms. Littell, 14,024; Mr. McDonald, 8,924 shares; and Mr. Miles, 1,275 shares.
- (2) Includes shares that would be outstanding upon the exercise of currently exercisable stock options granted under the Company's 1984 Incentive Stock Option Plan, 1992 Stock Incentive Plan and 2000 Stock Incentive Plan in the following amounts: Mr. Liken, 372,600 shares; Mr. Miclot, 57,500 shares; Mr. Reynolds, 91,250 shares; Mr. Bevevino, 31,499 shares; and Mr. Post, 37,500 shares.
- (3) Includes 20,785 shares held jointly with Mr. Dewberry's wife, as to which voting and investment power is shared.
- (4) Does not include 2,400 shares held by Mr. Lawyer's wife, who has sole voting and investment power of these shares and as to which Mr. Lawyer disclaims beneficial ownership.
- (5) Includes 48,098 shares held in the Gerald E. McGinnis Charitable Foundation. Includes 24,364 shares held jointly with Mr. McGinnis wife, as to which voting and investment power is shared. Includes 64,525 shares that would be outstanding upon the exercise of currently exercisable stock options granted under the Company's 1992 Stock Incentive Plan.





*Other Beneficial Owners*

The following table sets forth information with respect to each shareholder known to the Company to be the beneficial owner of more than 5% of the outstanding Common Stock as of the record date.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
FMR Corporation 82 Devonshire Street Boston, Massachusetts 02109 (1)	2,943,119	8.64%

- (1) Information regarding the beneficial owner has been determined by the Company based solely upon data included in a Form 13G filed with the United States Securities and Exchange Commission and the Company. Such filing contained information as of June 30, 2003.

**BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD**

The Board of Directors has three committees to assist in the management of the affairs of the Company: the Compensation Committee, the Audit Committee, and the Corporate Governance Committee.

*Compensation Committee.* The Compensation Committee currently consists of Mr. McDonald (Chairman), Dr. Cotter, and Mr. Jones. The Compensation Committee makes recommendations regarding the compensation payable, including compensation under the Company's bonus plan, to all executive officers of the Company and certain other management personnel. This committee also administers the Company's 1992 Stock Incentive Plan, the 2000 Stock Incentive Plan and the Company's other stock option plans, and has the authority to grant options thereunder.

*Audit Committee.* The Audit Committee consists of Mr. Lawyer (Chairman), Mr. Dewberry, and Mr. Miles, all of who are independent members of the Board of Directors. This committee engages independent public accountants to audit the financial statements of the Company, reviews the proposed scope and results of the audit, and reviews the scope, adequacy and results of the Company's internal audit and control procedures.

*Corporate Governance Committee.* The Corporate Governance Committee consists of Ms. Littell (Chairperson), Mr. Hardie, and Mr. McGinnis. The Corporate Governance Committee reviews the size and composition of the Board of Directors, makes recommendations with respect to nominations for directors, provides informal feedback to the Company's Directors regarding their performance as a director, and is responsible for succession planning to permit orderly changes in the makeup of the Board. This Committee will consider nominees recommended by shareholders provided that shareholders submit the names of nominees in writing to the Secretary of the Company together with a statement of the nominee's qualifications in accordance with the Company's Bylaws. Such information must be received no later than July 14, 2004 with respect to nominations for election at the 2004 Annual Meeting of Shareholders.

During fiscal year 2003, the Compensation Committee met ten times, the Corporate Governance Committee met seven times, and the Audit Committee met eight times. All of the Board's committees also met informally by telephone during the fiscal year as needed. The Board of

## Edgar Filing: RESPIRONICS INC - Form DEF 14A

Directors held seven meetings during fiscal year 2003.

Each director who is not an employee of the Company receives an annual fee of \$20,000 for service as a director and committee member. Non-employee directors receive a fee of \$1,000 for attendance at meetings of the full Board of Directors. In addition, each non-employee director receives an additional annual fee of \$3,500 for serving as a chairperson of the Compensation and Corporate Governance Committees, and \$5,000 for serving as chairperson of the Audit Committee. All non-employee director committee members receive a fee of \$600 for attendance at committee meetings. Directors fees are payable in either cash or in shares of the Company s

Common Stock having a fair market value on the date of payment equal to the fee being paid based upon an annual election made by each director. Directors may also elect to defer receipt of fees. All directors are reimbursed for travel expenses related to meetings of the Board.

Directors of the Company who are not employees also hold and receive stock options under the Company's 1991 Non-Employee Directors' Stock Option Plan and the Company's 2000 Stock Incentive Plan (as amended on May 23, 2003). Under these plans, each non-employee director is granted an option to purchase 10,000 shares of the Company's common stock on the first business day following the date they become a member of the Board of Directors, at the fair market value on such date. Each non-employee director is also granted an option on the third business day following each Annual Meeting of Shareholders to purchase 6,500 shares of the Company's Common Stock at the fair market value on such date. Each option has a term of 10 years, becomes exercisable in installments and is fully exercisable after three years from date of grant.

#### **REPORT OF THE AUDIT COMMITTEE**

The following report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Exchange Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report by reference therein.

The primary responsibilities of the Audit Committee are to assure the directors, regulators and shareholders that the Company's business controls and financial accounting and reporting practices are adequate and effective and that the Company is complying with applicable rules and regulations relating thereto. The Audit Committee's activities are governed by a written charter adopted by the Board of Directors and included as an exhibit to the Company's 2001 Proxy Statement. The Audit Committee is currently reviewing the charter in light of pending Securities and Exchange Commission provisions mandated by the Sarbanes-Oxley Act of 2002 and the actions of other regulatory bodies and expects to modify the charter on a timely basis as needed.

The Audit Committee has implemented procedures to ensure that during the course of each fiscal year it devotes the attention that it deems necessary or appropriate to each of the matters assigned to it under the Committee's charter. As part of its efforts to carry out its responsibilities, the Committee met nine times during fiscal year 2003.

In overseeing the preparation of the Company's financial statements, the Committee met with the Company's outside auditors, Ernst & Young LLP (Ernst & Young), both with and without Company management to review and discuss the Company's annual financial statements prior to their issuance and to discuss significant accounting issues. Additionally, the Committee met with Ernst & Young and management prior to the issuance of the Company's quarterly financial statements. Management advised the Committee that all financial statements were prepared in accordance with accounting principles generally accepted in the United States, and the Committee discussed the statements with both management and Ernst & Young. The Committee's review included discussion with Ernst & Young of matters that are required to be discussed pursuant to Statement on Auditing Standards (SAS) No. 61, as amended by SAS No. 90 and other professional standards and Securities and Exchange Commission rules governing auditor communication with Audit Committees.

The Committee also discussed with Ernst & Young matters relating to Ernst & Young's independence, including disclosures made by Ernst & Young to the Committee as required by the Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees).

On the basis of these reviews and discussions, the Committee recommended to the Board of Directors that the Board approve the inclusion of the Company's audited consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2003, for filing with the Securities and Exchange Commission.



*CERTAIN FEES*

The following disclosures are required by Securities and Exchange Commission regulations.

*Audit Fees*

The following represents the aggregate fees of Ernst & Young for professional services rendered for the audit of the Company's annual financial statements and Form 10-K for fiscal year 2003, reviews of the Company's quarterly earnings releases and Form 10-Q's for fiscal year 2003, the statutory audits required internationally, consents, and accounting and financial reporting consultation and research billed as audit services: \$375,000.

*Audit-Related Fees*

The following represents the aggregate fees of Ernst & Young for professional services rendered for the audit of the annual financial statements of the Company's Retirement Savings Plan and Form 11-K for fiscal year 2003: \$13,000.

*Tax Fees*

The following represents the aggregate fees of Ernst & Young for professional services rendered for tax compliance, tax advice, and tax planning: \$727,000. Tax services rendered during fiscal year 2003 included acquisition support, tax optimization strategies, particularly in the state and international income tax areas, review of the Company's income tax returns, and assistance during tax examinations.

*All Other Fees*

None.

**MEMBERS OF THE AUDIT COMMITTEE**

Joseph C. Lawyer, Chairman

J. Terry Dewberry

John C. Miles II

**MATTERS TO BE ACTED UPON**

*1. ELECTION OF DIRECTORS*

The Board of Directors, acting pursuant to the Restated Certificate of Incorporation of the Company, has determined that the number of directors constituting the full Board of Directors shall be eleven at the present time.

The Board is divided into three classes. One such class is elected every year at the Annual Meeting of Shareholders for a term of three years. Accordingly, a class is to be elected at the 2003 Annual Meeting of Shareholders, with each director so elected to hold office until the 2006 Annual Meeting of Shareholders or until the director's prior death, disability, resignation or removal.

The Board of Directors has nominated Joseph C. Lawyer, Sean McDonald, and John C. Miles II for reelection to the Board for the class of 2006, and each of them has agreed to serve if elected. **The Board of Directors recommends that the shareholders vote FOR the election of the three persons nominated to the Board of Directors.** Proxies are solicited in favor of these nominees and will be voted for them unless

otherwise specified. If any nominee becomes unable or unwilling to serve as director, it is intended that the proxies will be voted for the election of such other person, if any, as shall be designated by the Board of Directors.

James H. Hardie will not stand for reelection to the Board for the class of 2006.

Information concerning those nominees for director (class of 2006) and the other directors who will continue in office after the meeting (classes of 2004 and 2005) is set forth below.

Name	Position with the Company
<i>Class of 2006</i>	
Joseph C. Lawyer	Director
Sean McDonald	Director
John C. Miles II	Director
<i>Class of 2005</i>	
J. Terry Dewberry	Director
Donald H. Jones	Director
James W. Liken	President, Chief Executive Officer and Director
John L. Miclot	Executive Vice President, Chief Strategic Officer and Director
<i>Class of 2004</i>	
Douglas A. Cotter Ph.D.	Director
Gerald E. McGinnis	Chairman of the Board
Craig B. Reynolds	Executive Vice President, Chief Operating Officer and Director
Candace L. Littell	Director

Dr. Cotter, age 60, is a private investor. He has been a director of the Company since February 1989. From July 2000 to October 2002, Dr. Cotter was a Senior Vice President of Leerink Swann and Company, an investment banking firm focusing on life science and medical corporations. From April 1998 to July 2000 and from 1985 to 1996, Dr. Cotter was President of Healthcare Decisions, Inc., a Massachusetts health care and biotechnology consulting firm specializing in corporate development, strategic planning and acquisitions. Between April 1996 and March 1998, Dr. Cotter was Vice President of Decision Resources, an international consulting firm specializing in the health care industry (primarily pharmaceuticals). For nineteen years prior to joining Healthcare Decisions, Dr. Cotter was employed by Corning Glass Works, where he held various management positions in research, product development and clinical information systems.

Mr. Dewberry, age 59, is a private investor. He has served as a director of the Company since the completion of the merger between the Company and Healthdyne Technologies, Inc. ( Healthdyne ) on February 11, 1998. From March 1992 until March 1996, Mr. Dewberry was Vice Chairman of Healthdyne, Inc. From 1984 to 1992, Mr. Dewberry served as President and Chief Operating Officer, and Executive Vice President of Healthdyne, Inc.

Mr. Jones is 66 years old. He has been a director of the Company since May 1996. Currently, Mr. Jones serves as chairman of Triangle Capital Corporation, an investment banking and management firm. From 1990 to 1996, Mr. Jones served as Chairman of IndustryNet, an online electronic commerce company linking business-to-business buyers and sellers through electronic networks including the Internet. Mr. Jones founded IndustryNet in 1990. In 1996 IndustryNet, together with a subsidiary of another large corporation, was merged into Nets, Inc. Mr. Jones was not an executive officer of Nets, Inc., which filed for bankruptcy under Chapter 11 in May 1997. In 1982 Mr. Jones launched International Cybernetics Corporation ( ICC ), a developer of advanced factory automation control systems. In 1985 Mr. Jones merged ICC into the Industrial Automation Systems Division of Gould Electronics Inc. ( Gould ) and he became Vice President of Business Development for Gould. In 1988 the division was sold to AEG, a West German based multinational company and Mr. Jones ceased to be an officer.





Mr. Lawyer is 58 years old. He has been a director of the Company since 1994. Since May 2000, Mr. Lawyer has served as Vice Chairman of Reunion Industries, Inc. ( Reunion ) which designs, manufactures and markets a broad range of fabricated and machined parts and products and also manufactures high volume, precision plastic parts. Mr. Lawyer served as President and Chief Executive Officer of Reunion from March 2000 until his retirement from that position in May 2000. He has also been a Director of Reunion since March 2000. From 1988 through March 2000, he was President, Chief Executive Officer and a Director of Chatwins Group, Inc. ( CGI ) that merged with Reunion in March 2000. From 1986 to 1988 he was President, Chief Executive Officer and a Director of CP Industries, a predecessor company of CGI. Prior thereto, he held various operations, marketing, sales, finance and strategic planning positions for U.S. Steel Corporation for 17 years.

Mr. Liken is 54 years old. He has served as a director of the Company since January 1999 and President and Chief Executive Officer since August 1999. Mr. Liken was President and owner of Liken Home Medical, Inc. from 1990 until he sold that business in July 1998. Mr. Liken was a private investor from July 1998 until August 1999. In addition, Mr. Liken was a consultant to the Company from July 1998 until January 1999. Mr. Liken has been active in the home medical business since 1971, serving in management and ownership capacities for several predecessor companies to Liken Home Medical, Inc. Mr. Liken served on the Board of Directors of the National Association for Medical Equipment Services (NAMES) from 1984 to 1998 and was the Chairman of that board from 1987 to 1989 and again from 1997 to 1998. Mr. Liken also continues to serve on the Board of the American Association of Homecare.

Ms. Littell is 46 years old. She has served as a director of the Company since 1999. She previously served as a director of the Company in 1997. From January 1995 through January 1998, and again since September 1999, she has been the President of C L Littell & Associates, Inc., a consulting firm headquartered in Virginia, specializing in health policy, payment and outcomes management for medical technology companies and related health care organizations. During the period from February 1998 through August 1999, Ms. Littell served as Senior Health Policy Advisor to the Health Industry Manufacturers Association ( HIMA ), where she advised the association's membership and executive management on health care financing developments affecting the medical technology industry. Between 1992 and 1994, Ms. Littell was Executive Director of the Health Care Technology Institute, a privately funded organization where she oversaw the development of research related to the impact on the economy of the medical technology industry. From 1989 through 1991, she served as Vice President of Payment and Policy of HIMA.

Mr. McGinnis is 69 years old. He has been a director of the Company since 1977 and Chairman of the Board since November 1994. He served as Chief Executive Officer of the Company between 1977 and 1994, and President between 1984 and 1994. Prior to 1977, Mr. McGinnis was President of Lanz Medical Products Corporation, the predecessor to the Company. From 1971 to 1975, Mr. McGinnis also served on the staff of the Critical Care Department, Presbyterian University Hospital, Pittsburgh, where he participated in various medical engineering programs seeking the application of technology to medical care. Prior thereto, Mr. McGinnis was head of the Surgical Research Department at Allegheny General Hospital, Pittsburgh, for two years and for eleven years he was employed at the research and development laboratory of Westinghouse Electric Corporation. At Westinghouse he served six years as the Manager of the Bio-Engineering Department and headed the medical product development activities.

Mr. McDonald is 43 years old. He has been a director of the Company since 2000. Mr. McDonald is the President and Chief Executive Officer of Precision Therapeutics, Inc., a biomedical company providing comprehensive, personalized cancer management information, a position he has held since January 2001. From July 1999 to September 2000, he served as Group President of the Automation Group of McKessonHBOC, a diversified Fortune 100 healthcare company. From April 1996 through June 1999, Mr. McDonald served as President of the Automated Healthcare Division of McKesson Health Systems, a successor company to Automated Healthcare, Inc., which Mr. McDonald founded in 1990. Automated Healthcare, Inc. was acquired by McKessonHBOC in April 1996. For ten years prior to founding Automated Healthcare, Inc., Mr. McDonald held engineering and engineering management positions with divisions of Westinghouse Electric Corporation.

Mr. Miclot is 44 years old. He was appointed to the position of Executive Vice President and Chief Strategic Officer in the newly established Office of the Presidency in October 2002. Prior to his appointment to the Office of the Presidency, he served since July 1999 as president of Respiroics Homecare division. He joined the Company in February 1998 as Group Vice President Sleep Disorders after the Company's merger with Healthdyne Technologies. In August 1998, in addition to his Group Vice President role, he acquired the added responsibility of Vice President Sales and Marketing. Mr. Miclot has over 20 years of experience in the medical device industry. Prior to joining Respiroics, he served as Senior Vice President, Sales and Marketing of Healthdyne. Prior to joining Healthdyne, Mr. Miclot held positions with companies such as Baxter International, Medex and Ohmeda/BOC, where he assumed roles of increasing responsibility and ultimately served as Vice President International, Marketing and Services. Mr. Miclot also continues to serve on the Board of Directors of Medwave, Inc., which manufactures, develops, and sells non-invasive blood pressure measurement and monitoring systems and related technologies. Mr. Miclot has held this position since 2002.

Mr. Miles is 61 years old. He has been a director of the Company since February 2002. Mr. Miles is the Chairman and Chief Executive Officer of Dentsply International, Inc. ( Dentsply ), the world's largest manufacturer of dental products. Mr. Miles has served as Dentsply's Chief Executive Officer since January 1996 and as the Chairman of its Board of Directors since May 1998. On September 24, 2003, Dentsply announced that Mr. Miles would retire as Chief Executive Officer as of December 31, 2003 but remain Chairman of its Board of Directors.

Mr. Reynolds is 55 years old. He has been a director of the Company since the completion of the merger between the Company and Healthdyne on February 11, 1998. Prior to joining the Company, Mr. Reynolds served as President of Healthdyne from January 1987 until completion of the merger with the Company and served as Chief Executive Officer starting in 1993. Previously, he served as President of the Healthdyne Cardiovascular Division of Healthdyne, Inc. from January 1985 to December 1986 and as Vice President of Business and Technology Development of the Technologies Division of Healthdyne, Inc. from January 1981 to December 1984.

On October 2, 2003 the Company's Board of Directors announced the appointment of Mr. Miclot to the position of President and Chief Executive Officer effective December 1, 2003. Mr. Miclot succeeds Mr. Liken who has been President and Chief Executive Officer since August of 1999. Liken will assume the newly created role of Vice Chairman of the Board of Directors.

## 2. *SELECTION OF AUDITORS*

The Audit Committee has selected the independent public accounting firm of Ernst & Young as the auditors to examine the consolidated financial statements of the Company for fiscal year 2004. **The Board of Directors recommends that the shareholders vote FOR ratification of the appointment of Ernst & Young.** The proxies solicited on behalf of the Board of Directors will be voted to ratify selection of that firm unless otherwise specified.

Ernst & Young has served as the independent auditors for the Company since 1984. Representatives of Ernst & Young are expected to be present at the Annual Meeting of Shareholders. They will have the opportunity to make statements if they desire to do so and will be available to respond to appropriate questions.

## 3. *AMENDMENT TO THE RESPIRONICS, INC. 2000 STOCK INCENTIVE PLAN TO INCREASE THE NUMBER OF SHARES AVAILABLE*

The Company's 2000 Stock Incentive Plan (the Plan) was adopted by the Board of Directors on September 29, 2000 and approved by the Company's shareholders at the 2000 Annual Meeting of Shareholders on November 16, 2000, and amended by the Board on May 23, 2003 to increase the stock options awarded to non-employee Directors and August 27, 2003 to increase the number of shares available for grant. The

Edgar Filing: RESPIRONICS INC - Form DEF 14A

August 27 amendment will not be effective unless and until shareholder approval is obtained. At the time of the Plan s

adoption, the number of shares of Common Stock that could be issued under the Plan was 1,400,000 shares. After giving effect to stock options already granted under the Plan, approximately 160,000 shares of Common Stock remain available under the Plan. On October 9, 2003, the closing price of the Company's Common Stock as reported on NASDAQ was \$42.46 per share.

Employees of the Company or any subsidiary who share responsibility for the management, growth or protection of the business of the Company, or any subsidiary, directors of the Company who are not also employees, and any consultants who share responsibility for the management, growth and protection of the business of the Company are eligible to receive awards under the Plan. Under the Plan, eligible employees, consultants, and non-employee Directors may receive options to purchase shares of the Company's Common Stock for a period up to ten years at option prices that may not be less than the fair market value on the date of grant. Stock options granted under the Plan become exercisable at such times or upon the occurrence of such events as determined by the Committee administering the Plan. Options granted under the Plan may include cash payment rights, and restricted shares of the Company's Common Stock may also be awarded under the Plan.

**The Board of Directors recommends that the shareholders vote FOR adoption of the amendment to the Plan that would increase the number of shares available for grant by 1,876,000 shares to a total of 3,276,000 shares.** The Company believes that having these 1,876,000 additional shares available under the Plan is critical to its efforts to adequately compensate its key employees, to provide them with incentives to maintain and increase the Company's profitability, and to recruit and retain employees of a caliber necessary to continue the Company's growth. The proxies solicited on behalf of the Board of Directors will be voted for the amendment to the Plan unless otherwise specified. The favorable vote of the holders of a majority of the outstanding shares of Common Stock represented in person or by proxy at the Annual Meeting of Shareholders and entitled to vote, a quorum being present, is required for adoption of the amendment to the Plan.

The full text of the Plan, as amended and restated to include the proposed amendment to increase the number of shares available, is set forth as Exhibit A to this Proxy Statement. A summary description of the Plan is set forth below.

#### **Summary Description of the Respironics, Inc. 2000 Stock Incentive Plan**

##### **General**

The purposes of the Plan are to encourage eligible individuals, which include employees, non-employee directors and consultants of the Company and its subsidiaries,

to increase their efforts to make the Company and its subsidiaries more successful,

to provide an additional inducement for such persons to remain with the Company or a subsidiary,

to reward such persons by providing an opportunity to acquire the Company's common stock on favorable terms, and

to provide a means through which the Company may attract able persons to enter its employ or otherwise serve as non-employee directors or consultants.

## Edgar Filing: RESPIRONICS INC - Form DEF 14A

Employees of the Company or any subsidiary who share responsibility for the management, growth or protection of the business of the Company or any subsidiary, directors of the Company who are not also employees, and any consultants who share responsibility for the management, growth or protection of the business of the Company are eligible to receive awards under the Plan.

The aggregate number of shares of the Company's common stock that may be issued under the Plan, as amended, is 3,276,000 shares, subject to proportionate adjustment in the event of stock splits and similar events. No awards may be granted under the Plan subsequent to September 29, 2010.

## Administration

Except in the case of awards to non-employee directors, the Plan will be administered by a committee of the Board, consisting of not less than two (2) members of the Board. Each member of the committee must be an outside director as defined in Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code) and a non-employee director as defined in Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the Exchange Act). In the case of awards to non-employee directors, the Plan will be administered by the Board. As used in this proxy statement, the term Committee is used to refer to the Board in the case of awards to non-employee directors, or the committee in the case of awards to employees and consultants.

Except in the case of awards to non-employee directors, the Committee has full authority, in its discretion, to interpret the Plan and to determine the persons who will receive awards and the number of shares to be covered by each award. In determining the eligibility of employees and consultants, as well as in determining the number of shares to be covered by an award and the type of awards to be made to such individuals, the Committee will consider the position and responsibilities of the person being considered, the nature and value to the Company or subsidiary of his or her services, his or her present and/or potential contribution to the success of the Company or subsidiary and such other factors as the Committee may deem relevant.

In the case of awards to non-employee directors, the selection of those directors to whom stock options will be granted, the timing of such grants, the number of shares subject to any stock option, the exercise price of any stock option, the periods during which any stock option may be exercised and the term of any stock option are specified in the Plan and are not otherwise generally within the discretion of the Committee.

The types of awards which the Committee has authority to grant are (1) stock options (with or without cash payment rights) and (2) restricted shares. Each of these types of awards is described below.

## Stock Options

The Plan provides for the grant of incentive stock options pursuant to Section 422 of the Code, or nonstatutory stock options, which are stock options that do not so qualify. Stock options may not be granted in tandem, and incentive stock options may only be granted to employees. The option price for each stock option may not be less than 100% of the fair market value of the Company's common stock on the date the stock option is granted. Fair market value, for purposes of the Plan, is generally the mean between the publicly reported high and low sale prices per share of the Company's common stock for the date as of which fair market value is to be determined.

A stock option granted to an employee or a consultant becomes exercisable at such time or times and/or upon the occurrence of such event or events as the Committee may determine. Unless otherwise determined by the Committee, a stock option granted to an employee or a consultant is exercisable from its date of grant. A stock option granted to a non-employee director will become exercisable with respect to twenty-five percent (25%) of the shares covered by the option on the first anniversary of the date of grant of the option, with respect to an additional twenty-five percent (25%) of the shares covered by the option on the second anniversary of the date of grant of the option and with respect to the remaining fifty percent (50%) of the shares covered by the option on the third anniversary of the date of grant of the option. No stock option may be exercised after the expiration of ten years from the date of grant. A stock option to the extent exercisable at any time may be exercised in whole or in part.

Unless the Committee, in its discretion, otherwise determines, the following provisions of this paragraph will apply in the event of an optionee-employee whose employment is terminated. If the employment of an optionee is voluntarily terminated with the consent of the

Edgar Filing: RESPIRONICS INC - Form DEF 14A

Company, or the optionee retires under any retirement plan of the Company, all outstanding incentive stock options held by the optionee will be exercisable by the optionee (but only to the extent exercisable immediately prior to the termination of employment) at any time prior to the expiration date of the stock option or within three (3) months after termination of employment,



whichever is the shorter period and all outstanding nonstatutory stock options of the optionee will be exercisable (but only to the extent exercisable immediately prior to the termination of employment) at any time prior to the expiration date of the stock option or within one (1) year after termination of employment, whichever is the shorter period. If the employment of the optionee is voluntarily terminated because the optionee is disabled within the meaning of Section 422(c)(6) of the Code, all outstanding stock options of the optionee will be exercisable (whether or not so exercisable immediately prior to the termination of employment) at any time prior to the expiration date of the stock option or within one year after the date of termination of employment, whichever is the shorter period. Following the death of an optionee during employment, all outstanding stock options of the optionee at the time of death will be exercisable (whether or not so exercisable immediately prior to the death of the optionee) by the person entitled to do so under the Will of the optionee, or, if the optionee shall fail to make testamentary disposition of the stock option or shall die intestate, by the legal representative of the optionee, at any time prior to the expiration date of the stock option or within one year after the date of death of the optionee. Following the death of the optionee after termination of employment, all outstanding stock options of the optionee at the time of death will be exercisable (but only to the extent exercisable immediately prior to the death of the optionee) by the person entitled to do so under the Will of the optionee, or, if the optionee shall fail to make testamentary disposition of the stock option or shall die intestate, by the legal representative of the optionee, at any time prior to the expiration date of the stock option or within one year after the date of death of the optionee, whichever is the shorter period. All of the time periods for exercise of options described above in this paragraph apply to any person to whom a nonstatutory stock option has been transferred, if transfer was permitted by the Committee, and may be extended in certain circumstances, as described under Additional Rights in Certain Events below. If the employment of an optionee terminates for any reason other than voluntary termination with the consent of the Company, retirement under any retirement plan of the Company or death, all outstanding stock options granted to the optionee will automatically terminate, unless the exercise period has been extended as described under Additional Rights in Certain Events below.

The following provisions of this paragraph will apply in the event of an optionee who is a non-employee director whose services with the Company are terminated. If a non-employee director ceases to be a director of the Company for any reason other than resignation, removal for cause or death, any then outstanding stock option of the non-employee director will be exercisable (but only to the extent exercisable immediately prior to ceasing to be a director) at any time prior to the expiration date of the stock option or within four (4) years after the date the non-employee director ceases to be a director, whichever is the shorter period. Unless the Board determines otherwise in the case of a resignation, if during his or her term of office as a director a non-employee director resigns from the Board or is removed from office for cause, any then outstanding stock option of such non-employee director will be exercisable (but only to the extent exercisable immediately prior to ceasing to be a director) at any time prior to the expiration date of such stock option or within 90 days after the date of resignation or removal, whichever is the shorter period. Following the death of an optionee during service as a non-employee director, all outstanding stock options of the optionee at the time of death will be exercisable in full (whether or not so exercisable immediately prior to the death of the optionee) by the person entitled to do so under the Will of the optionee, or, if the optionee shall fail to make testamentary disposition of the stock option or shall die intestate, by the legal representative of the optionee, at any time prior to the expiration date of the stock option or within two (2) years after the date of death of the optionee, whichever is the shorter period. Following the death of the optionee after service as a non-employee director, all outstanding stock options of the optionee at the time of death will be exercisable in full (but only to the extent exercisable immediately prior to the death of the optionee) by the person entitled to do so under the Will of the optionee or, if the optionee shall fail to make testamentary disposition of the stock option or shall die intestate, by the legal representative of the optionee, at any time prior to the expiration date of the stock option or within one (1) year after the date of death of the optionee, whichever is the shorter period. All of the time periods for exercise of options described above in this paragraph apply to any person to whom a nonstatutory stock option has been transferred, if transfer was permitted by the Board.

Unless the Committee, in its discretion, otherwise determines, the following provisions of this paragraph will apply in the event of an optionee-consultant whose services with the Company are terminated. If the retention of an optionee as a consultant by the Company is voluntarily terminated with the consent of the

Company, any then outstanding stock option of such optionee will be exercisable (but only to the extent exercisable immediately prior to the termination of the optionee's retention as a consultant) at any time prior to the expiration date of the stock option or within one year after the termination of the retention of the optionee as a consultant, whichever is the shorter period. Following the death of an optionee during service as a consultant, all outstanding stock options of the optionee at the time of death will be exercisable in full (whether or not so exercisable immediately prior to the death of the optionee) by the person entitled to do so under the Will of the optionee or, if the optionee shall fail to make testamentary disposition of the stock options or shall die intestate, by the legal representative of the optionee, at any time prior to the expiration date of the stock option or within one (1) year after the date of death of the optionee, whichever is the shorter period. Following the death of the optionee after service as a consultant, all outstanding stock options of the optionee at the time of death will be exercisable in full (but only to the extent exercisable immediately prior to the death of the optionee) by the person entitled to do so under the Will of the optionee, or, if the optionee shall fail to make testamentary disposition of the stock option or shall die intestate, by the legal representative of the optionee, at any time prior to the expiration date of the stock option or within one year after the date of death of the optionee, whichever is the shorter period. All of the time periods for exercise of options described above in this paragraph apply to any person to whom a nonstatutory stock option has been transferred, if transfer was permitted by the Committee. If the retention of the optionee as a consultant terminates for any reason other than voluntary termination with the consent of the Company, all outstanding stock options granted to the optionee will automatically terminate.

The option price for each stock option will be payable in full in cash at the time of exercise; however, in lieu of cash the holder of an option may, if authorized by the Committee, pay the option price in whole or in part by delivering to the Company shares of the Company's common stock having a fair market value on the date of exercise of the stock option equal to the option price for the shares being purchased, except that any portion of the option price representing a fraction of a share must be paid in cash, and no shares of the Company's common stock which have been held less than six months may be delivered in payment of the option price of a stock option.

For incentive stock options, the aggregate fair market value (determined on the date of grant) of the shares with respect to which incentive stock options are exercisable for the first time by an employee during any calendar year under all plans of the corporation employing such employee, any parent or subsidiary corporation of such corporation and any predecessor corporation of any such corporation shall not exceed \$100,000. If the exercise date of incentive stock options is accelerated pursuant to any provision of the Plan or any agreement (see "Additional Rights in Certain Events" below) and the acceleration would result in a violation of this limitation, then, subject to the provisions of the next sentence, the exercise dates of such incentive stock options will be accelerated only to the extent, if any, that does not result in a violation of such limitation and, in any such event, the exercise dates of the incentive stock options with the lowest option prices will be accelerated first. The Committee may, in its discretion, authorize the acceleration of the exercise date of one or more incentive stock options even if such acceleration would violate the \$100,000 limitation and even if such incentive stock options would as a result be converted in whole or in part into nonstatutory stock options.

Unless and except to the extent otherwise determined by the Committee in the case of a nonstatutory stock option, no stock option granted under the Plan is transferable other than by Will or by the laws of descent and distribution, and a stock option may be exercised during an optionee's lifetime only by the optionee.

Subject to the foregoing and the other provisions of the Plan, stock options granted under the Plan to employees and consultants may be exercised at such times and in such amounts and be subject to such restrictions and other terms and conditions, if any, as shall be determined, in its discretion, by the Committee.

### **Cash Payment Rights**

The Committee may grant cash payment rights in conjunction with a nonstatutory stock option, either at the time of the stock option grant or at any time thereafter during the term of the stock option.



Cash payment rights entitle the person exercising them, upon exercise of the stock option, to receive from the Company cash equal to the excess of a percentage (not greater than 100%) of the fair market value of one share on the date of exercise over the option price per share, multiplied by the number of shares covered by the stock option, or portion thereof, which is surrendered.

Cash payment rights are exercisable to the extent that the related stock option is exercisable and only by the same person who is entitled to exercise the related stock option.

### **Restricted Shares**

Restricted shares of the Company's common stock awarded by the Committee will be subject to such restrictions (which may include restrictions on the right to transfer or encumber the shares while subject to restriction) as the Committee may impose and will be subject to forfeiture in whole or in part if certain events (which may, in the discretion of the Committee, include termination of employment and/or performance-based events) specified by the Committee occur prior to the lapse of the restrictions. The restricted share agreement between the Company and the awardee will set forth the number of restricted shares awarded to the awardee, the restrictions imposed thereon, the duration of such restrictions, the events the occurrence of which would cause a forfeiture of the restricted shares in whole or in part and such other terms and conditions as the Committee in its discretion deems appropriate.

Following a restricted share award and prior to the lapse or termination of the applicable restrictions, share certificates for the restricted shares will be held in escrow. Upon the lapse or termination of the restrictions (and not before), the share certificates will be delivered to the awardee. From the date a restricted share award is effective, however, the awardee will be a shareholder with respect to the restricted shares and will have all the rights of a shareholder with respect to such shares, including the right to vote the shares and to receive all dividends and other distributions paid with respect to the shares, subject only to the restrictions imposed by the Committee.

### **Additional Rights in Certain Events**

The Plan provides for certain additional rights upon the occurrence of one or more events described in Section 8 of the Plan ( **Section 8 Events** ). Such an event is deemed to have occurred (1) when any person or group (other than the Company, a subsidiary or any employee benefit plan sponsored by the Company) acquires beneficial ownership of twenty percent (20%) or more of the voting power of the Company, (2) on the Committee's specified date following a tender offer to acquire securities of the Company representing twenty percent (20%) or more of the voting power of the Company, (3) on the Committee's specified date following the solicitation of proxies by a person other than the Company relating to the election or removal of fifty percent (50%) or more of any class of the Company's Board of Directors, or (4) when the shareholders of the Company approve a merger, consolidation, share exchange, division or sale or other disposition of assets of the Company as a result of which the shareholders of the Company immediately prior to the transaction will not own a majority of the voting power of the surviving or resulting corporation or any corporation which acquires the stock of the Company or more than ten percent (10%) of its consolidated assets.

Subject to the provisions of Section 4 of the Plan limiting such rights in the case of incentive stock options, unless the agreement between the Company and the awardee otherwise provides, if any Section 8 Event occurs (1) all outstanding stock options will become immediately and fully exercisable, (2) all stock options held by an awardee whose employment with the Company or a subsidiary terminates within one year of any Section 8 Event for any reason other than voluntary termination with the consent of the Company or a subsidiary, retirement under any retirement plan of the Company or a subsidiary, or death will be exercisable for a period of three months from the date of such termination of employment, but in no event after the expiration date of the stock option, and (3) all restrictions applicable to restricted shares awarded under the Plan will lapse.

**Possible Anti-Takeover Effect**

The provisions of the Plan providing for the acceleration of the exercise date of stock options, and the lapse of restrictions applicable to restricted shares upon the occurrence of a Section 8 Event and for the extension of the period during which stock options may be exercised upon termination of employment following a Section 8 Event may be considered as having an anti-takeover effect.

**Miscellaneous**

The maximum aggregate number of shares of the Company's common stock which shall be available for the grant of stock options and restricted shares to any one individual under the Plan during any calendar year shall be limited to 400,000 shares. The Board may amend or terminate the Plan at any time, except that the Board may not terminate any outstanding award and except that no amendment may be made without the approval of the Company's shareholders if (1) the effect of the amendment is to make any changes in the class of employees eligible to receive incentive stock options or increase the number of shares for which incentive stock options may be granted under the Plan or (2) if shareholder approval of the amendment is required by the rules of the NASDAQ National Market System or any stock exchange on which the common stock may then be listed or for stock options granted under the Plan to qualify as performance based compensation as then defined in the regulations under Section 162(m) of the Code.

If an awardee engages in a business that is in competition with the Company or any of its subsidiaries, the Committee may immediately terminate all outstanding stock options of the awardee and declare forfeited all restricted shares of the awardee as to which the restrictions have not yet lapsed. The preceding sentence shall not apply if the exercise period of the stock option upon termination of employment has been extended or the lapse of the restrictions applicable to the restricted shares has been accelerated as a result of the occurrence of a Section 8 Event.

The following table sets forth the total number of shares of Common Stock for which stock options have been awarded to the persons and groups listed below under the Resprionics, Inc. 2000 Stock Incentive Plan for the last completed fiscal year ended June 30, 2003:

<u>Name</u>	<u>Number of Options</u>
James W. Liken	50,000
Craig B. Reynolds	45,000
John L. Miclot	40,000
Daniel J. Bevevino	34,825
William Post	50,000
All current executive officers, as a group	229,347
All current directors who are not executive officers, as a group	50,800
All employees other than executive officers and directors, as a group	27,700

The total number of stock options awarded to the groups listed above for the year ended June 30, 2003, including stock options awarded from the Company's other equity compensation plans were as follows: to all current executive officers, as a group - 300,000; to all current directors who are not executive officers, as a group - 50,800; and to all employees other than executive officers and directors, as a group - 360,400. The total number of stock options awarded to the named executive officers for the year ended June 30, 2003 is disclosed under "Executive Compensation" on page 17.

**Federal Income Tax Consequences**

The following is a brief summary of the principal Federal income tax consequences of the grant and exercise of awards under present law.

Edgar Filing: RESPIRONICS INC - Form DEF 14A

*Incentive Stock Options.* An optionee will not recognize any taxable income for Federal income tax purposes upon receipt of an incentive stock option or, generally, at the time of exercise of an incentive stock option. The exercise of an incentive stock option generally will result in an increase in an optionee's taxable income for alternative minimum tax purposes.

If an optionee exercises an incentive stock option and does not dispose of the shares received in a subsequent disqualifying disposition (generally, a sale, gift or other transfer within two years after the date of grant of the incentive stock option or within one year after the shares are transferred to the optionee), upon disposition of the shares any amount realized in excess of the optionee's tax basis in the shares disposed of will be treated as a long-term capital gain, and any loss will be treated as a long-term capital loss. In the event of a disqualifying disposition, the difference between the fair market value of the shares received on the date of exercise and the option price (limited, in the case of a taxable sale or exchange, to the excess of the amount realized upon disposition over the optionee's tax basis in the shares) will be treated as compensation received by the optionee in the year of disposition. Any additional gain will be taxable as a capital gain and any loss as a capital loss, which will be long-term or short-term depending on whether the shares were held for more than one year. Under proposed regulations, special rules apply in determining the compensation income recognized upon a disqualifying disposition if the option price of the incentive stock option is paid with shares of the Company's common stock. If shares of the Company's common stock received upon the prior exercise of an incentive stock option are transferred to the Company in payment of the option price of an incentive stock option within either of the periods referred to above, the transfer will be considered a disqualifying disposition of the shares transferred, but, under proposed regulations, only compensation income determined as stated above, and no capital gain or loss, will be recognized.

Neither the Company nor any of its subsidiaries will be entitled to a deduction with respect to shares received by an optionee upon exercise of an incentive stock option and not disposed of in a disqualifying disposition. Except as described in Other Tax Matters below, if an amount is treated as compensation received by an optionee because of a disqualifying disposition, the Company or one of its subsidiaries generally will be entitled to a corresponding deduction in the same amount for compensation paid.

*Nonstatutory Stock Options.* An optionee will not recognize any taxable income for Federal income tax purposes upon receipt of a nonstatutory stock option. Upon the exercise of a nonstatutory stock option the amount by which the fair market value of the shares received, determined as of the date of exercise, exceeds the option price will be treated as compensation received by the optionee in the year of exercise. If the option price of a nonstatutory stock option is paid in whole or in part with shares of the Company's common stock, no income, gain or loss will be recognized by the optionee on the receipt of shares equal in value on the date of exercise to the shares delivered in payment of the option price. The fair market value of the remainder of the shares received upon exercise of the nonstatutory stock option, determined as of the date of exercise, less the amount of cash, if any, paid upon exercise will be treated as compensation income received by the optionee on the date of exercise of the stock option.

There is no published authority directly addressing the Federal income tax consequences of certain aspects of transferring nonstatutory stock options, and the following statements of the probable tax consequences are based on the Company's interpretation of present law. An optionee should not recognize any taxable income for Federal income tax purposes upon transfer of a nonstatutory stock option by gift. Upon the exercise of a nonstatutory stock option by the transferee, the optionee should be treated as receiving compensation, which is subject to tax withholding, even though the nonstatutory stock option is exercised by a transferee rather than an optionee.

Except as described in Other Tax Matters below, the Company or one of its subsidiaries generally will be entitled to a deduction for compensation paid in the same amount treated as compensation received by the optionee.

*Cash Payment Rights.* An awardee does not recognize any taxable income for Federal income tax purposes upon receipt of cash payment rights. Any cash received in payment of cash payment rights is treated as compensation received by the awardee in the year in which the awardee becomes entitled to receive the cash payment. Except as described in Other Tax Matters below, in each instance that an amount is treated as compensation received, the Company or one of its subsidiaries generally is entitled to a corresponding deduction in the same amount for compensation paid.



*Restricted Shares.* An awardee of restricted shares will not recognize any taxable income for Federal income tax purposes in the year of the award, provided the shares are subject to restrictions (that is, they are nontransferable and subject to a substantial risk of forfeiture). However, an awardee may elect under Section 83(b) of the Code to recognize compensation income in the year of the award in an amount equal to the fair market value of the shares on the date of the award, determined without regard to the restrictions. If the awardee does not make a Section 83(b) election, the fair market value of the shares on the date the restrictions lapse will be treated as compensation income to the awardee and will be taxable in the year the restrictions lapse. Except as described in *Other Tax Matters* below, the Company or one of its subsidiaries generally will be entitled to a deduction for compensation paid in the same amount treated as compensation income to the awardee.

*Other Tax Matters.* The exercise by an awardee of a stock option or cash payment rights or the lapse of restrictions on restricted shares following the occurrence of a Section 8 Event, in certain circumstances, may result in (i) a 20% Federal excise tax (in addition to Federal income tax) to the awardee on certain payments of the Company's common stock or cash resulting from such exercise or, in the case of restricted shares, on all or a portion of the fair market value of the shares on the date the restrictions lapse and (ii) the loss of a compensation deduction which would otherwise be allowable to the Company or one of its subsidiaries as explained above. The Company and its subsidiaries may lose a compensation deduction, which would otherwise be allowable, for all or a part of compensation paid in the form of (i) restricted shares, or (ii) cash payment rights granted after the grant of the related option, to any employee if, as of the close of the tax year, the employee is the Chief Executive Officer of the Company (or acts in that capacity) or is among the four highest compensated officers for that tax year (other than the Chief Executive Officer) for whom total compensation is required to be reported to shareholders under the Exchange Act, if the total compensation paid to such employee exceeds \$1,000,000.

#### 4. OTHER BUSINESS

The Board of Directors does not know of any other business to be presented to the Annual Meeting of Shareholders. If any other matters properly come before the meeting, however, the persons named in the enclosed form of proxy will vote the proxy in accordance with their best judgment.

#### VOTE REQUIRED

Under Delaware law, the three nominees for election as directors at the Annual Meeting of Shareholders who receive the greatest number of votes cast for the election of directors by the holders of the Company's Common Stock present in person or represented by proxy and entitled to vote at the meeting, a quorum being present, will be elected as directors. The affirmative vote of the holders of a majority of the shares of the Company's Common Stock present in person or represented by proxy and entitled to vote at the Annual Meeting of Shareholders, a quorum being present, is necessary for ratification of the selection of Ernst & Young. The vote required for adoption of the amendment to the 2000 Stock Incentive Plan is set forth above. The aggregate number of shares for which a vote *For*, *Against* or *Abstain* is made is counted for the purpose of determining the minimum number of affirmative votes required for approval, and the total number of votes cast *For* approval is counted for the purpose of determining whether sufficient votes are received. An abstention from voting on a matter other than election of directors by a shareholder present in person or represented by proxy and entitled to vote has the same legal effect as a vote *Against* the matter. If a broker or similar nominee limits on a proxy card the number of shares voted on a proposal or indicates that the shares represented by a proxy card are not voted on the proposal, such broker *non-votes* will not be voted on the proposal and will not be counted in determining the number of affirmative votes required for approval.

**EXECUTIVE COMPENSATION**

The following table sets forth information concerning compensation paid to the Chief Executive Officer of the Company during the fiscal years ended June 30, 2003, 2002, and 2001, and the four highest paid executive officers other than the Chief Executive Officer (the named officers) for services rendered in all capacities to the Company and its subsidiaries during the fiscal years ended June 30, 2003, 2002 and 2001.

Name and Principal Position	Year	Annual Compensation		Long Term Compensation				
		Salary (\$ (A))	Bonus (\$)	Other Annual Compensation (\$ (B))	Awards		Payouts	All other Compensation (\$ (C))
					Restricted Stock Awards	Securities Underlying Options/ SAR s (#)	LTIP Payouts (\$)	
James W. Liken President and Chief Executive Officer	2003	536,538	600,000			50,000		73,500
	2002	247,692	75,000			40,000		76,529
	2001	100,000	302,320			48,150		76,529
Craig B. Reynolds Executive Vice President, Chief Operating Officer	2003	361,924	275,000			45,000		57,123
	2002	317,812	51,000			30,000		68,690
	2001	289,151	78,013			40,000		67,863
John L. Miclot Senior Vice President, Chief Strategic Officer	2003	330,973	200,000			40,000		49,202
	2002	291,622	92,197			30,000		54,207
	2001	259,327	70,595			30,000		49,743
Daniel J. Bevevino Vice President, Chief Financial Officer	2003	237,549	209,000			40,000		35,702
	2002	203,006	33,003			25,000		30,672
	2001	183,644	49,632			20,000		36,894
William Post President Homecare Division (D)	2003	270,358	155,000			50,000		41,956

(A) This column represents base salary and includes tax deferred Section 401(k) contributions under the Company's Retirement Savings Plan.

(B) The dollar value of perquisites and other personal benefits is required to be disclosed under this column if the amount for any named officer equals or exceeds \$50,000 or 10% of the total annual salary and bonus. The dollar value of the perquisites and other personal benefits did not exceed the threshold amount for any of the named officers for any of the years covered in the table.

(C) The amounts in this column for 2003 represent the following: matching contributions under the Company's Retirement Savings Plan (Mr. Liken, \$6,000; Mr. Miclot, \$6,000; Mr. Bevevino, \$6,000; Mr. Post, \$6,000); supplemental executive retirement plan contributions made on the officer's behalf (Mr. Liken, \$67,500; Mr. Reynolds, \$45,900; Mr. Miclot, \$43,202; Mr. Bevevino, \$29,702; Mr. Post, \$35,956); and reimbursement of interest incurred on a loan by a commercial bank to an officer (Mr. Reynolds, \$11,223).

(D) Mr. Post became an executive officer of the Company in October 2002.

**STOCK OPTIONS**

The following table sets forth information concerning stock option grants made to the named officers during the fiscal year ended June 30, 2003. The Company has not granted any stock appreciation rights (SARs) to any of the named officers or any other officers or employees of the

Edgar Filing: RESPIRONICS INC - Form DEF 14A

Company.

<u>Name</u>	<u>Number of Securities Underlying Options Granted (#) (A)</u>	<u>% of Total Options granted to employees in fiscal year</u>	<u>Exercise Price per Share (B)</u>	<u>Expiration Date</u>	<u>5%</u>	<u>10%</u>
James W. Liken	50,000	7%	\$ 32.68	August 16, 2012	\$ 1,027,786	\$ 2,604,596
Craig B. Reynolds	45,000	7%	\$ 32.68	August 16, 2012	\$ 925,007	\$ 2,344,136
John L. Miclot	40,000	6%	\$ 32.68	August 16, 2012	\$ 822,229	\$ 2,083,677
Daniel J. Bevino	40,000	6%	\$ 32.68	August 16, 2012	\$ 822,229	\$ 2,083,677
William Post	50,000	7%	\$ 32.68	August 16, 2012	\$ 1,027,786	\$ 2,604,596

- (A) Options granted in 2003 are exercisable starting 12 months after the grant date, with 25% of the shares covered thereby becoming exercisable at that time and an additional 25% of the option shares becoming exercisable on each successive anniversary date, with all option shares exercisable on the fourth anniversary date. Under the terms of the Company's stock option plans, this exercise may be accelerated in certain specific situations.
- (B) Under the terms of the Company's stock option plans, there are not provisions that permit these options to be repriced other than to reflect stock splits, stock dividends, or similar events.

The following table sets forth information concerning the stock option exercises by the named officers during the fiscal year 2002 and the unexercised stock options held at June 30, 2003 by the named officers.

Name	Shares Acquired on Exercise	Value Realized (1)	Number of Unexercised Options at June 30, 2003	Value of Unexercised In- the-Money Options at June 30, 2003
			Exercisable/Unexercisable	Exercisable (2) / Unexercisable
James W. Liken	82,400	\$ 1,945,684	311,550 / 126,050	\$8,486,906 / \$1,463,316
Craig B. Reynolds	63,100	\$ 1,368,410	47,500 / 112,500	\$442,113 / \$1,379,999
John L. Miclot	94,050	\$ 2,216,012	7,500 / 102,500	\$26,663 / \$1,263,418
Daniel J. Bebevino	26,425	\$ 538,698	6,250 / 72,750	\$22,219 / \$551,638
William Post			12,500 / 87,500	\$48,812 / \$374,188

- (1) Represents the amount by which the fair market value of the shares acquired on exercise at the exercise date exceeded the exercise price of such shares.
- (2) Represents the amount by which the fair market value of the shares covered by the stock options on June 30, 2003 (\$37.23) exceeded the exercise price of such options.

In the following table, we summarize information about the Company's equity compensation plans as of June 30, 2003.

	Number of securities to be issued upon exercise of outstanding options and warrants	Weighted-average exercise price of outstanding options and warrants	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	2,596,000	\$ 24.13	830,000
Equity compensation plans not approved by security holders (a)	173,000	\$ 25.79	
Total	2,769,000	\$ 24.23	830,000

---

(a) Represents stock options and warrants issued by companies that were acquired by Respirationics, prior to the date of acquisition.

**Employment Agreements and Other Transactions**

Effective October 1, 1999 and as subsequently amended, the Company entered into an Employment Agreement with Mr. Liken providing for his employment as President and Chief Executive Officer of the Company for an initial term ending on September 30, 2004 absent prior notice by either the Company or Mr. Liken at the end of the initial term. The Agreement will be automatically extended for an additional

three-year term and thereafter will be extended each year for one additional year. The Agreement as amended provides for a base salary of \$500,000 per year effective as of February 1, 2002 (subject to annual adjustment) plus participation in the Company's benefit and incentive plans on a basis comparable with other executives in the Company. The Agreement also provided for a grant of options in fiscal year 2000 to Mr. Likien to purchase 263,700 shares of the Company's Common Stock at \$8.38 per share (the fair market value at the date of grant) pursuant to the Company's 1992 Stock Incentive Plan. See Report of the Compensation Committee CEO Compensation below.

Effective February 11, 1998, the Company entered into Employment Agreements with Messrs. Reynolds and Miclot providing for their employment as Senior Vice President (now Executive Vice President and Chief Operating Officer) and Group Vice President Sleep Disorders (now Executive Vice President and Chief Strategic Officer), respectively, for three year terms ending February 10, 2001. The Agreements are automatically extended each year for an additional year, absent prior notice by either party. The Agreements provide for base salaries of \$251,538 for Mr. Reynolds and \$203,679 for Mr. Miclot (subject to annual adjustment) plus participation in the Company's benefit and incentive plans on a basis comparable with other executives in the Company. Effective August 16, 2000, Mr. Reynolds' Employment Agreement was amended to, among other things, provide for the payment to Mr. Reynolds of an amount equal to 150% of his then current base salary upon the expiration of the Employment Agreement or the termination of the Employment Agreement by the Company or Mr. Reynolds for any reason. Such amount is generally payable over a two-year period beginning on the date of expiration or termination of the Agreement. As part of the amendment, Mr. Reynolds agreed to forego certain rights under his Employment Agreement. Mr. Reynolds is also entitled to certain benefits pursuant to a defined benefit plan that was maintained by Healthdyne. The estimated annual benefit payable to Mr. Reynolds under this plan, assuming retirement at age 65, is approximately \$66,000. This benefit will be reduced by any Social Security benefits paid to Mr. Reynolds after retirement.

Effective September 1, 2000, the Company entered into an Employment Agreement with Mr. Bevevino providing for his employment as Vice President and Chief Financial Officer for a three year term ending August 31, 2003. The Agreement is automatically extended each year for one additional year absent prior notice by either party. The Agreement provides for a base salary for Mr. Bevevino of \$178,048 per year (subject to annual adjustment), plus participation in the Company's benefit and incentive plans on a basis comparable with other executives in the Company.

Effective October 8, 2001, the Company entered into an Employment Agreement with Mr. Post providing for his employment as Senior Vice President Home Care Division. The Agreement provides for a base salary of \$260,000 per year (subject to annual adjustment) plus participation in the Company's benefit and incentive plans on a basis comparable with other executives in the Company. Effective October 21, 2002, the Company amended its Employment Agreement with Mr. Post to extend his term of employment to October 7, 2004 and to change his title to President Home Care Division. The Agreement is automatically extended each year for an additional year, absent prior notice by either party.

#### **Executive Officers**

The executive officers of the Company, other than those who also serve as directors and are described in the preceding pages, are Daniel J. Bevevino, 43, Vice President and Chief Financial Officer; Steven P. Fulton, 44, Vice President and General Counsel; William Post, 53, President Home Care Division; Geoffrey Waters, 53, President International Division; Paul L. Woodring, 63, President Hospital Division; and Susan A. Lloyd, 54, Vice President Asthma and Allergy Division.

Mr. Bevevino joined the Company in 1988 as Manager of Cost Accounting. From 1990 to 1994 Mr. Bevevino served as Controller. In November of 1994, Mr. Bevevino was elected Chief Financial Officer and in May 1996 was also elected Vice President. Prior to his affiliation with the Company, Mr. Bevevino, spent five years with Ernst & Young.

Mr. Fulton joined the Company on a part time basis in May 1995 serving as General Counsel. In January 1996 his role was expanded to full time status. In October 1996, in addition to his General Counsel role, Mr. Fulton was elected Vice President, Human Resources. In February 1998, Mr. Fulton was appointed to the position of Vice President and General Counsel. Prior to joining the Company, Mr. Fulton was a partner in the Pittsburgh office of Reed Smith LLP. He joined the law firm in May 1984. Prior to this employment, he served briefly in an engineering capacity for Westinghouse Electric Corporation.

Ms. Lloyd, as part of the Company's merger with Healthdyne, joined the Company in February 1998 as Vice President Sales and Marketing, Asthma and Allergy. In July 1999, she was named Vice President Asthma and Allergy Division. Ms. Lloyd was employed by Becton, Dickinson and Company from 1974 through 1990, serving in a variety of sales and marketing positions, including most recently as Director of Marketing for the Becton Dickinson Acute Care Division. In 1990, she joined Healthscan Products, Inc. ( Healthscan ) as Director of Marketing. In 1994, Healthdyne acquired Healthscan and Ms. Lloyd was named Vice President, Marketing for Healthscan. In 1997, she was named Vice President, Sales and Marketing for Healthscan, a position she held until Healthdyne was merged with Respironics.

Mr. Post joined the Company in October 2001 as Senior Vice President Home Care Division. In October 2002, he was named President Home Care Division. Mr. Post joined the Company from Opticon Medical Inc. ( Opticon ), where he served as the President and Chief Executive Officer from 1997 to October 2001 of this development-stage medical device company. Mr. Post was neither an executive officer nor director of Opticon when it reorganized under Chapter 11 of the U.S. Bankruptcy Code in March 2002. Mr. Post has more than 26 years of senior management experience in the medical device manufacturing industry, with companies including Baxter International, Ohmeda/Boc Health Care, and Medex.

Mr. Waters, as part of the Company's acquisition of LIFECARE International, Inc., joined the Company in October 1996, as Vice President Customer Satisfaction. In February 1998, Mr. Waters was appointed to the position of Vice President International Sales and Marketing. In July 1999, Mr. Waters was named Vice President International Division and was named President International Division in May 2000. Prior to joining the Company, Mr. Waters was employed in various capacities by LIFECARE International, Inc. from 1984 to 1996. His last position with LIFECARE was President and Chief Operating Officer.

Mr. Woodring, as part of the Company's merger with Healthdyne, joined the Company in February 1998 as Vice President Operations, Respiratory. In July 1999, Mr. Woodring was named Vice President Hospital Division and was named President Hospital Division in February 2002. Mr. Woodring was employed by Puritan-Bennett (now Nellcor Puritan Bennett, a division of Tyco International Ltd.) from 1976 to 1995, serving in a variety of engineering and management positions, including most recently as Vice President and General Manager of the Ventilator Systems Division. Mr. Woodring formed a new company, InVentive Technologies, in 1995, and was employed there until joining Healthdyne in 1996.

On October 2, 2003, the Company announced that Mr. Miclot had been elected to the position of President and Chief Executive Officer of the Company, effective December 1, 2003, and that Mr. Liken would assume the newly created position of Vice Chairman of the Board of Directors. In connection with his election, Mr. Miclot entered into a new Employment Agreement with the Company, which will be effective December 1, 2003. Under the new Employment Agreement, Mr. Miclot will be employed as the President and Chief Executive Officer of the Company for a three-year term ending November 30, 2006. The term of the new Employment Agreement is automatically extended each year for one additional year absent notice by either party. The new Employment Agreement provides for a base salary of \$500,000 per year (subject to annual adjustment at any time after February 1, 2005), plus participation in the Company's benefit and incentive plans on a basis comparable with other executives in the Company. In connection with execution of the new Employment Agreement, Mr. Miclot will receive a one-time grant of stock options to acquire 100,000 shares of the Company's Common Stock effective December 1, 2003 pursuant to the Company's 2000 Stock Incentive Plan.

---

**REPORT OF THE COMPENSATION COMMITTEE**

**Introduction**

Decisions regarding compensation of the Company's executive officers generally are made based on recommendations by the Compensation Committee, which is composed of independent directors, Messrs. McDonald, Jones and Cotter. All decisions of the Compensation Committee relating to compensation of the Company's executive officers are reviewed and approved by the full Board. Set forth below is a report submitted by the members of the Board's Compensation Committee addressing the Company's compensation policies for fiscal year 2003 as they affected executive officers of the Company, including Mr. Liken, the Company's President and Chief Executive Officer, and Messrs. Reynolds, Micol, Bevevino and Post, the four executive officers other than Mr. Liken who were, for fiscal year 2003, the Company's most highly compensated executive officers.

**Compensation**

The Company's executive and key employee compensation program consists of a base salary component, a component providing the potential for an annual profit sharing bonus based on overall Company performance as well as individual performance, and a component providing the opportunity to earn stock options linking the employee's long-term financial success to that of the Company's shareholders.

*Cash Compensation*

Officers are compensated within salary ranges that are generally based on similar positions in companies of comparable size and complexity to the Company. Comparable companies are selected based on products marketed, customers and markets served, geographic distribution, manufacturing locations and complexity of operations (which involves several factors, with sales revenue being a major factor) for those companies operating in the respiratory products market. In addition, the Company participates in compensation surveys and receives summary compensation survey information from these and other sources.

The methodology used to determine guidelines for compensation was a matching of each executive's responsibilities to a comparable position described in the surveys. Based on this matching, each executive's salary was compared to the corresponding salary range of comparable executives in the surveys. Then, an appropriate salary range (e.g., 25th percentile, median, 75th percentile) was selected based on the comparison of the executive's responsibilities to those of the comparable position in the surveys. The comparable companies operating in the respiratory market and other data were then examined for reasonableness on a position-by-position basis. Salaries were established based on the performance of the executive given his responsibilities within a specific position and the relationship of the current salary to the appropriate percentile for the most comparable position available within the surveys.

The primary level of compensation is based on a combination of years of experience and performance. An officer's performance is based on how well he meets objectives set by his supervisor through a Company-wide process of stating objectives for each associate (employee), insuring compatibility of objectives among associates, reviewing performance against objectives and recognizing the accomplishment of these objectives. The Board of Directors establishes and reviews the objectives of the Chairman of the Board, and the Board also assesses the Chairman's performance compared to these objectives. The salary of all officers is reviewed annually in November, with the amount of the increases (which take effect the following February) based on factors such as Company performance, general economic conditions, marketplace compensation trends and individual performance. The relative weight of each of these factors in determining salary increases varies for each annual salary determination. There is no fixed weighting. However, in the past, the factors which have generally had the greatest influence on salary increases



have been (in decreasing significance) Company performance, individual performance, marketplace trends in compensation and general economic conditions.

*Profit Sharing and Other Bonuses*

The second compensation component is a Company-wide profit sharing program under the Company's Profit Sharing Bonus Plan. Bonuses are primarily based on the Company's annual financial performance and secondarily on the performance of the individual. Bonuses under this program generally range from zero to 50% of base salary. The measures of annual financial performance used in determining the amount of bonuses include sales growth, earnings growth and achievement of net income targets. In addition to profit sharing, the Company may award other discretionary bonuses to executive officers and employees. Based on these factors, profit sharing and other bonuses were paid for fiscal year 2003 for the named officers in the amounts set forth in the Summary Compensation Table above.

*Stock Options*

The third major component of the officer's compensation consists of stock options. The primary purpose of granting stock options is to link the officer's financial success to that of the stockholders of the Company. The exercise price of stock options is determined by the Compensation Committee at the time the option is granted, but may not be less than the fair market value of the Company's Common Stock as of the date of grant. Options generally become exercisable commencing a minimum of six months from the date of grant and are exercisable for a maximum period of 10 years, as determined by the Compensation Committee, and all options have vesting periods of generally not less than three years.

The Stock Option Committee awarded stock options to 240 of the Company's employees during fiscal year 2003. Stock options granted to named officers during fiscal year 2003 are listed on the table entitled "Option Grants in Last Fiscal Year."

**CEO Compensation**

The following factors constitute the basis for the compensation paid to Mr. Liken, who served as the Company's Chief Executive Officer (CEO) during fiscal year 2003: his responsibilities as the Company's CEO; the Company's ability to achieve its objectives for revenue and earnings growth and its objectives for long-term growth; the salaries paid to other CEOs of comparable companies as reported in industry surveys; and his experience compared to the CEOs of comparable companies in industry surveys. In Mr. Liken's case, the Compensation Committee had determined in fiscal years 2000 and 2001 that it was most appropriate for his compensation to be highly correlated to the Company's stock price and financial performance and to be more heavily weighted towards performance-based cash bonuses and stock options rather than base salary. Accordingly, during those fiscal years his annual base salary was fixed at \$100,000 and he received profit sharing bonuses and stock option grants at levels higher than the Company's other executives. Pursuant to an amendment to Mr. Liken's Employment Agreement referenced in the Executive Compensation section of this Proxy Statement, Mr. Liken's annual base salary was adjusted to \$500,000 effective February 1, 2002 (subject to annual adjustment) in recognition of his contribution to the Company's performance and its substantial increase in value. He was also awarded a profit sharing bonus of \$600,000 for fiscal year 2003 as reflected in the Summary Compensation Table above. Stock options granted to Mr. Liken in fiscal year 2003 are shown in the Summary Compensation Table and in the Option Grant table. The Compensation Committee believes that Mr. Liken's current compensation components reflect market levels.

**MEMBERS OF THE COMPENSATION COMMITTEE**

Sean McDonald, Chairman

Douglas A. Cotter

Donald H. Jones



### **Compensation Committee Interlocks and Insider Participation**

The Securities and Exchange Commission's rules relating to the disclosure of executive compensation require that the Proxy Statement include certain information about insider participation on compensation committees and about specific kinds of interlocking relationships between the compensation committees of different companies, under the foregoing caption. All members of the Compensation Committee are outside directors, and no such interlocking relationships exist.

The Compensation Committee of the Board of Directors is responsible for executive compensation decisions as described above under Board of Directors and Committees of the Board. During fiscal year 2003, the Committee consisted of Mr. McDonald (Chairman), and Messrs. Jones and Cotter.

### **SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and officers, and persons who own more than ten percent of a registered class of the Company's equity securities, to file with the Securities and Exchange Commission (the Commission) and the National Association of Securities Dealers National Market System initial reports of ownership and reports of change in ownership of Common Stock and other equity securities of the Company. Officers, directors and greater than ten percent shareholders are required by Commission regulation to furnish the Company with copies of all Section 16(a) forms they file.

All Forms 3, 4 and 5 have been filed within the guidelines of the Commission during fiscal year 2003 with the following exceptions: Messrs. Jones, Lawyer and McDonald had four late filings and Mr. Hardie had one late filing, all of which related to the receipt, at their election, of their directors' fees in shares of the Company's Common Stock; and Ms. Littell had one late filing related to the receipt of shares of the Company's Common Stock from exercising stock options (see Board of Directors and Committees of the Board above). In making this disclosure, the Company has relied solely on the written representation of its directors and officers and copies of the reports that they have filed with the Commission.

**PERFORMANCE GRAPH**

The following graph shows a five-year comparison of cumulative total returns for the Company, the NASDAQ Market Index, and the S&P 500 Healthcare Equipment and Supplies Index. The graph assumes that the value of the investment in the Company's Common Stock and each index was \$100 at June 30, 1998, and that all dividends were reinvested.

	Fiscal Year Ended June 30,					
	1998	1999	2000	2001	2002	2003
Respironics Inc	\$ 100.00	\$ 97.19	\$ 115.66	\$ 191.23	\$ 218.80	\$ 239.23
NASDAQ Index	\$ 100.00	\$ 141.77	\$ 209.32	\$ 114.03	\$ 77.22	\$ 85.65
S&P 500 Healthcare Equipment & Supplies Index	\$ 100.00	\$ 122.75	\$ 134.75	\$ 130.28	\$ 127.35	\$ 148.54

**MISCELLANEOUS**

The cost of soliciting proxies will be borne by the Company. Following the original mailing of the proxy solicitation material, proxies may be solicited personally, or by telephone, facsimile or other electronic means, by employees of the Company and its subsidiaries who will receive no additional compensation for such services. The Company will reimburse brokerage houses and other custodians, nominees and fiduciaries for reasonable expenses incurred in the sending of proxy solicitation material and the 2003 Annual Report to beneficial owners of stock held in their names.

**A COPY OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR FISCAL YEAR 2003 MAY BE OBTAINED WITHOUT CHARGE BY ANY SHAREHOLDER UPON WRITTEN REQUEST TO DORITA A. PISHKO, CORPORATE SECRETARY, RESPIRONICS, INC., 1010 MURRY RIDGE LANE, MURRYSVILLE, PENNSYLVANIA 15668.**

Dorita A. Pishko

*Corporate Secretary*

October 14, 2003

**EXHIBIT A**

**RESPIRONICS, INC.**

**2000 STOCK INCENTIVE PLAN**

**RESPIRONICS, INC.**

**2000 STOCK INCENTIVE PLAN**

**as amended through August 27, 2003**

The purposes of the 2000 Stock Incentive Plan (the **Plan**) are to encourage eligible individuals to increase their efforts to make Respirationics, Inc. (the **Corporation**) and its Subsidiaries more successful, to provide an additional inducement for such individuals to remain with the Corporation or a Subsidiary, to reward such individuals by providing an opportunity to acquire shares of the Common Stock, par value \$.01 per share, of the Corporation (the **Common Stock**) on favorable terms and to provide a means through which the Corporation may attract able persons to enter the service of the Corporation or one of its Subsidiaries as employees, consultants or directors. For the purposes of the Plan, the term **Subsidiary** means any corporation in an unbroken chain of corporations beginning with the Corporation, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing at least fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

**SECTION 1**

**Administration**

The Plan shall be administered by a Committee (the **Committee**) appointed by the Board of Directors of the Corporation (the **Board**) and consisting of not less than two members of the Board, each of whom at the time of appointment to the Committee and at all times during service as a member of the Committee shall be both (1) a **non-employee director** as then defined under Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the **Exchange Act**), or any successor rule and (2) an **outside director** as then defined in the regulations under Section 162(m) of the Internal Revenue Code of 1986, as amended (the **Code**), or any successor provision. Notwithstanding the foregoing, unless otherwise determined by the Board, the Board shall administer the Plan, and otherwise exercise the same authority as the Committee, with respect to grants to members of the Board who are not employees of the Corporation or any Subsidiary (**Non-Employee Directors**).

The Committee shall interpret the Plan and prescribe such rules, regulations and procedures in connection with the operations of the Plan as it shall deem to be necessary and advisable for the administration of the Plan consistent with the purposes of the Plan.

The Committee shall keep records of action taken at its meetings. A majority of the Committee shall constitute a quorum at any meeting, and the acts of a majority of the members present at any meeting at which a quorum is present, or acts approved in writing by all members of the Committee, shall be the acts of the Committee.

**SECTION 2**

**Eligibility**

Those employees of the Corporation or any Subsidiary who share responsibility for the management, growth or protection of the business of the Corporation or any Subsidiary shall be eligible to be granted stock options (with or without cash payment rights) and to receive restricted shares as described herein. Non-Employee Directors and consultants who share responsibility for the management, growth or protection of the business of the Corporation shall be eligible to be granted nonstatutory stock options, as described herein. Eligible employees, Non-Employee Directors and consultants are collectively referred to herein as Participants .



Subject to the provisions of the Plan, the Committee shall have full and final authority, in its discretion, to grant stock options (with or without cash payment rights) and to award restricted shares as described herein and to determine the Participants to whom any such grant shall be made and the number of shares to be covered thereby. In determining the eligibility of any Participant, as well as in determining the number of shares covered by each grant of a stock option or restricted shares and whether cash payment rights shall be granted in conjunction with a stock option, the Committee shall consider the position and the responsibilities of the Participant being considered, the nature and value to the Corporation or a Subsidiary of his or her services, his or her present and/or potential contribution to the success of the Corporation or a Subsidiary and such other factors as the Committee may deem relevant. Notwithstanding any other provision contained in the Plan except for Section 5(G)(x) and Sections 8(A)(5)(b) and (c), with regard to Non-Employee Directors, the selection of those Non-Employee Directors to whom stock options are to be granted, the timing of such grants, the number of shares subject to any stock option, the exercise price of any stock option, the periods during which any stock option may be exercised and the term of any stock option shall be as hereinafter provided, and the Committee and the Board shall have no discretion as to such matters.

### SECTION 3

#### **Shares Available under the Plan**

The aggregate net number of shares of Common Stock which may be issued and as to which grants of stock options or restricted shares may be made under the Plan is 3,276,000 shares, subject to adjustment and substitution as set forth in Section 7. If any stock option is exercised by delivering previously owned shares in payment of the option price, the number of shares so delivered to the Corporation shall again be available for purposes of the Plan. If any stock option is cancelled by mutual consent or terminates or expires for any reason without having been exercised in full, the number of shares subject thereto shall again be available for purposes of the Plan. If shares of Common Stock are forfeited to the Corporation pursuant to the restrictions applicable to restricted shares, the shares so forfeited shall again be available for purposes of the Plan. The shares which may be issued under the Plan may be either authorized but unissued shares or treasury shares or partly each, as shall be determined from time to time by the Board.

The maximum aggregate number of shares of Common Stock which shall be available for the grant of stock options and restricted shares to any one individual under the Plan during any calendar year shall be limited to 400,000 shares. The limitation in the preceding sentence shall be interpreted and applied in a manner consistent with Section 162(m) of the Code.

### SECTION 4

#### **Grant of Stock Options, Cash Payment**

#### **Rights and Awards of Restricted Shares**

The Committee shall have authority, in its discretion, (a) to grant incentive stock options pursuant to Section 422 of the Code, to grant nonstatutory stock options (*i.e.*, stock options which do not qualify under Sections 422 or 423 of the Code) or to grant both types of stock options (but not in tandem) and (b) to award restricted shares. The Committee also shall have the authority to grant cash payment rights in conjunction with nonstatutory stock options with the effect provided in Section 5(E). Cash payment rights may not be granted in conjunction with incentive stock options. Cash payment rights granted in conjunction with a nonstatutory stock option may be granted either at the time the stock option is granted or at any time thereafter during the term of the stock option.

Edgar Filing: RESPIRONICS INC - Form DEF 14A

Notwithstanding any other provision contained in the Plan or in any stock option agreement, but subject to the possible exercise of the Committee's discretion contemplated in the last sentence of this Section 4, the

-2-

aggregate fair market value, determined as provided in Section 5(I) on the date of grant, of the shares with respect to which incentive stock options are exercisable for the first time by an employee during any calendar year under all plans of the corporation employing such employee, any parent or subsidiary corporation of such corporation and any predecessor corporation of any such corporation shall not exceed \$100,000. If the date on which one or more of such incentive stock options could first be exercised would be accelerated pursuant to any provision of the Plan or any stock option agreement, and the acceleration of such exercise date would result in a violation of the restriction set forth in the preceding sentence, then, notwithstanding any such provision, but subject to the provisions of the next succeeding sentence, the exercise dates of such incentive stock options shall be accelerated only to the date or dates, if any, that do not result in a violation of such restriction and, in such event, the exercise dates of the incentive stock options with the lowest option prices shall be accelerated to the earliest such dates. The Committee may, in its discretion, authorize the acceleration of the exercise date of one or more incentive stock options even if such acceleration would violate the \$100,000 restriction set forth in the first sentence of this paragraph and even if such incentive stock options are thereby converted in whole or in part to nonstatutory stock options.

## SECTION 5

### Terms and Conditions of Stock Options and Cash Payment Rights

Stock options and cash payment rights granted under the Plan shall be subject to the following terms and conditions:

(A) The purchase price at which each stock option may be exercised (the option price) shall be such price as the Committee, in its discretion, shall determine but shall not be less than one hundred percent (100%) of the fair market value per share of the Common Stock covered by the stock option on the date of grant, except that in the case of an incentive stock option granted to an employee who, immediately prior to such grant, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation or any Subsidiary (a Ten Percent Employee), the option price shall not be less than one hundred ten percent (110%) of such fair market value on the date of grant. For purposes of this Section 5(A), an individual (i) shall be considered as owning not only shares of stock owned individually but also all shares of stock that are at the time owned, directly or indirectly, by or for the spouse, ancestors, lineal descendants and brothers and sisters (whether by the whole or half blood) of such individual and (ii) shall be considered as owning proportionately any shares owned, directly or indirectly, by or for any corporation, partnership, estate or trust in which such individual is a shareholder, partner or beneficiary.

(B) The option price for each stock option shall be paid in full upon exercise and shall be payable in cash in United States dollars (including check, bank draft or money order), which may include cash forwarded through a broker or other agent-sponsored exercise or financing program; provided, however, that in lieu of such cash the person exercising the stock option may (if authorized by the Committee at the time of grant in the case of an incentive stock option, or at any time in the case of a nonstatutory stock option) pay the option price in whole or in part by delivering to the Corporation shares of Common Stock having a fair market value on the date of exercise of the stock option, determined as provided in Section 5(I), equal to the option price for the shares being purchased; except that (i) any portion of the option price representing a fraction of a share shall in any event be paid in cash and (ii) no shares of Common Stock which have been held for less than six months may be delivered in payment of the option price of a stock option. Delivery of shares of Common Stock in payment of the exercise price of a stock option, if authorized by the Committee, may be accomplished through the effective transfer to the Corporation of shares of Common Stock held through a broker or other agent. If the person exercising a stock option participates in a broker or other agent-sponsored exercise or financing program, the Corporation will cooperate with all reasonable procedures of the broker or other agent to permit participation by the person exercising the stock option in the exercise or financing program. Notwithstanding any procedure of the broker or other agent-sponsored exercise or financing program, if the option price is paid in cash, the exercise of the stock option shall not be

deemed to occur and no shares of Common Stock will be issued until the Corporation has received full payment in cash (including check, bank draft or money order) for the option price from the broker or other agent. The date of exercise of a stock option shall be determined under procedures established by the Committee, and as of the date of exercise the person exercising the stock option shall be considered for all purposes to be the owner of the shares with respect to which the stock option has been exercised.

(C) Subject to Section 8(B), a stock option granted to an employee or a consultant shall become exercisable at such time or times and/or upon the occurrence of such event or events as may be determined by the Committee. Unless otherwise determined by the Committee and reflected in the stock option agreement with an employee or a consultant, a stock option shall be exercisable from its date of grant. No stock option shall be exercisable after the expiration of ten years (five years in the case of an incentive stock option granted to a Ten Percent Employee) from the date of grant. A stock option to the extent exercisable at any time may be exercised in whole or in part.

(D) On the first business day following the date an individual, who was not immediately preceding such date a member of the Board, becomes a Non-Employee Director, such Non-employee Director shall automatically and without further action by the Board or the Committee be granted a nonstatutory stock option to purchase 10,000 shares of Common Stock, subject to adjustment and substitution as set forth in Section 7. On the third business day following the day of each annual meeting of the shareholders of the Corporation, each Non-Employee Director shall automatically and without further action by the Board or the Committee be granted a nonstatutory stock option to purchase 6,500 shares of Common Stock, subject to adjustment and substitution as set forth in Section 7. If the number of shares remaining available for the grant of stock options under the Plan is not sufficient for each Non-Employee Director to be granted an option for 6,500 shares (or the number of adjusted or substituted shares pursuant to Section 7), then each Non-Employee Director shall be granted an option for a number of whole shares equal to the number of shares then remaining available divided by the number of Non-Employee Directors, disregarding any fractions of a share. Subject to Section 8(B) and Section 5(G), no stock option granted to a Non-Employee Director shall be exercisable by a grantee until the first anniversary of the grant thereof, at which time it shall become exercisable for 25% of the shares covered thereby and shall thereafter be exercisable for an additional 25% of the shares covered thereby on the second anniversary of the grant thereof and shall thereafter be exercisable for the remaining 50% of the shares covered thereby on the third anniversary of the grant thereof, such limitations being calculated, in the case of any resulting fraction, to the nearest lower whole number of shares. Subject to Section 5(G) providing for earlier termination of a stock option, any stock option granted to a Non-Employee Director and not exercised in the year eligible shall continue to be exercisable thereafter until the end of the term of such stock option.

Notwithstanding the foregoing provisions of this Section 5(D), a Non-Employee Director shall not be granted a nonstatutory stock option pursuant to the second sentence of Section 5(D) of this Plan in any year in which the Non-Employee Director has been granted a nonstatutory stock option pursuant to the Corporation's 1991 Non-Employee Directors' Stock Option Plan (the "1991 Plan") in the same year; provided that, in the event that the number of shares covered by the option granted to such Non-Employee Director under the 1991 Plan for such year was less than 6,500 shares of Common Stock, as adjusted and substituted as set forth in Section 5 of the 1991 Plan, then such Non-Employee Director shall be granted a nonstatutory stock option pursuant to this Plan for the amount of any such deficiency.

(E) Cash payment rights granted in conjunction with a nonstatutory stock option shall entitle the person who is entitled to exercise the stock option, upon exercise of the stock option or any portion thereof, to receive cash from the Corporation (in addition to the shares to be received upon exercise of the stock option) equal to (1) such percentage (not greater than 100%) as the Committee, in its discretion, shall determine of the excess of the fair market value of a share of Common Stock on the date of exercise of the stock option over the option price per share of the stock option, multiplied by (2) the number of shares covered by the stock option, or portion thereof, which is exercised. Payment of the cash provided for in this Section 5(E) shall be made by the Corporation as soon as practicable after the time the amount payable is determined.

(F) No incentive stock option and, except to the extent otherwise determined by the Committee and reflected in the stock option agreement or an amendment thereto, no nonstatutory stock option shall be transferable by the grantee otherwise than by Will, or if the grantee dies intestate, by the laws of descent and distribution of the state of domicile of the grantee at the time of death. All incentive stock options and, except to the extent otherwise determined by the Committee and reflected in the stock option agreement or an amendment thereto, all nonstatutory stock options shall be exercisable during the lifetime of the grantee only by the grantee.

(G) Subject to the provisions of Section 4 in the case of incentive stock options, unless the Committee, in its discretion, shall otherwise determine in the case of grants of stock options to employees and consultants:

(i) If the employment of a grantee who is not disabled within the meaning of Section 422(c)(6) of the Code (a Disabled Grantee ) is voluntarily terminated with the consent of the Corporation or a Subsidiary or a grantee who is an employee retires under any retirement plan of the Corporation or a Subsidiary, any then outstanding incentive stock option held by such grantee shall be exercisable by the grantee (but only to the extent exercisable by the grantee immediately prior to the termination of employment) at any time prior to the expiration date of such incentive stock option or within three months after the date of termination of employment, whichever is the shorter period;

(ii) If the employment or consulting relationship of a grantee who is not a Disabled Grantee is voluntarily terminated with the consent of the Corporation or a Subsidiary or a grantee who is an employee retires under any retirement plan of the Corporation or a Subsidiary, any then outstanding nonstatutory stock option of such grantee (whether or not then held by the grantee) shall be exercisable (but only to the extent exercisable immediately prior to the grantee's termination of employment or termination of the consulting relationship) at any time prior to the expiration date of such nonstatutory stock option or within one year after the date of termination of service, whichever is the shorter period;

(iii) If a grantee ceases to be a Non-Employee Director of the Corporation for any reason other than resignation, removal for cause or death, any then outstanding nonstatutory stock option of such grantee (whether or not then held by the grantee) shall be exercisable (but only to the extent exercisable by the grantee immediately prior to ceasing to be a Non-Employee Director) at any time prior to the expiration date of such stock option or within four years after the date the grantee ceases to be a Non-Employee Director, whichever is the shorter period; provided that, for purposes of determining when an outstanding stock option held by a grantee who ceases to be a Non-Employee Director shall be exercisable, the anniversary date of the grant of such option in the year in question shall be deemed to be the date immediately preceding the date on which the annual meeting of shareholders of the Corporation is held in that year, and further provided that, in the case such grantee is a Disabled Grantee, any then outstanding nonstatutory stock option shall be exercisable for such period whether or not exercisable by the grantee immediately prior to ceasing to be a Non-Employee Director;

(iv) If the employment or consulting relationship of a grantee who is a Disabled Grantee is voluntarily terminated with the consent of the Corporation or a Subsidiary, any then outstanding stock option of such grantee (whether or not then held by the grantee) shall be exercisable in full (whether or not so exercisable immediately prior to the grantee's termination of employment or the consulting relationship) at any time prior to the expiration date of such stock option or within one year after the date of termination of service, whichever is the shorter period;

(v) Following the death of a grantee during employment or a consulting relationship, any stock option of the grantee outstanding at the time of death shall be exercisable in full (whether or not so exercisable immediately prior to the death of the grantee) by the person entitled to do so under the Will of the grantee, or, if the grantee shall fail to make testamentary disposition of the stock option or shall die intestate, by the legal representative of the grantee (or, in the case of a nonstatutory stock option, if permitted under the stock option agreement, by the grantee's *inter vivos* transferee) at any time prior to the expiration date of such stock option or within one year after the date of death, whichever is the shorter period;

(vi) Following the death of a grantee during service as a Non-Employee Director, any stock option of the grantee outstanding at the time of death shall be exercisable in full (whether or not so exercisable immediately prior to the death of the grantee) by the person entitled to do so under the Will of the grantee, or, if the grantee shall fail to make testamentary disposition of the stock option or shall die intestate, by the legal representative of the grantee (or, if permitted under the stock option agreement, by the grantee *s inter vivos* transferee) at any time prior to the expiration date of such stock option or within two years after the date of death, whichever is the shorter period;

(vii) Following the death of a grantee after termination of employment or a consulting relationship or after ceasing to be a Non-Employee Director and during a period when a stock option is exercisable, any stock option of the grantee outstanding at the time of death shall be exercisable (but only to the extent the stock option was exercisable immediately prior to the death of the grantee) by such person entitled to do so under the Will of the grantee or by such legal representative (or, in the case of a nonstatutory stock option, by such *inter vivos* transferee) at any time prior to the expiration date of such stock option or within one year after the date of death, whichever is the shorter period;

(viii) Unless the exercise period of a stock option following termination of employment has been extended as provided in Section 8(C), if the employment of a grantee terminates for any reason other than voluntary termination with the consent of the Corporation or a Subsidiary, retirement under any retirement plan of the Corporation or a Subsidiary or death, all stock options of the grantee outstanding at the time of such termination of employment (whether or not then held by the grantee) shall automatically terminate;

(ix) If the consulting relationship of a grantee terminates for any reason other than voluntary termination with the consent of the Corporation or a Subsidiary or death, all stock options of the grantee outstanding at the time of such termination (whether or not then held by the grantee) shall automatically terminate; and

(x) Unless otherwise determined by the Board in the case of a resignation, if during his or her term of office as a Non-Employee Director a grantee resigns from the Board or is removed from office for cause, any outstanding stock option of the grantee (whether or not then held by the grantee) which is not exercisable by the grantee immediately prior to resignation or removal shall terminate as of the date of resignation or removal, and any outstanding stock option of the grantee (whether or not then held by the grantee) which is exercisable by the grantee immediately prior to resignation or removal shall be exercisable by the grantee (or, if permitted under the stock option agreement, by the grantee *s inter vivos* transferee) at any time prior to the expiration date of such stock option or within 90 days after the date of resignation or removal, whichever is the shorter period.

Whether termination of employment is a voluntary termination of employment with the consent of the Corporation and whether a grantee is a Disabled Grantee shall be determined, in each case, in its discretion, by the Committee, and any such determination by the Committee shall be final and binding. Retention by the Corporation of a consultant shall terminate when the consultant is notified in writing by the Corporation of the termination of his retention as a consultant.

If a grantee of a stock option engages in the operation or management of a business (whether as owner, partner, officer, director, employee or otherwise and whether during or after termination of employment or service as a Non-Employee Director) which is in competition with the Corporation or any of its Subsidiaries, the Committee may immediately terminate all outstanding stock options of the grantee (whether or not such stock options are then held by the grantee); provided, however, that this sentence shall not apply if the exercise period of a stock option following termination of employment has been extended as provided in Section 8(C). Whether a grantee has engaged in the operation or management of a business which is in competition with the Corporation or any of its Subsidiaries shall also be determined, in its discretion, by the Committee, and any such determination by the Committee shall be final and binding.

(H) All stock options and cash payment rights shall be confirmed by an agreement, or an amendment thereto, which shall be executed by the Corporation and the grantee.



(I) For all purposes under the Plan, fair market value of the Common Stock shall be the mean between the following prices, as applicable, for the date as of which fair market value is to be determined as quoted in *The Wall Street Journal* (or in such other reliable publication as the Committee, in its discretion, may determine to rely upon): (a) if the Common Stock is listed on the New York Stock Exchange, the highest and lowest sales prices per share of the Common Stock as quoted in the NYSE-Composite Transactions listing for such date, (b) if the Common Stock is not listed on such exchange, the highest and lowest sales prices per share of Common Stock for such date on (or on any composite index including) the principal United States securities exchange registered under the Exchange Act on which the Common Stock is listed, or (c) if the Common Stock is not listed on any such exchange, the highest and lowest sales prices per share of Common Stock for such date on the National Association of Securities Dealers Automated Quotations System or any successor system then in use ( NASDAQ ). If there are no such sale price quotations for the date as of which fair market value is to be determined but there are such sale price quotations within a reasonable period both before and after such date, then fair market value shall be determined by taking a weighted average of the means between the highest and lowest sales prices per share of Common Stock as so quoted on the nearest date before and the nearest date after the date as of which fair market value is to be determined. The average should be weighted inversely by the respective numbers of trading days between the selling dates and the date as of which fair market value is to be determined. If there are no such sale price quotations on or within a reasonable period both before and after the date as of which fair market value is to be determined, then fair market value of the Common Stock shall be the mean between the bona fide bid and asked prices per share of Common Stock as so quoted for such date on NASDAQ, or if none, the weighted average of the means between such bona fide bid and asked prices on the nearest trading date before and the nearest trading date after the date as of which fair market value is to be determined, if both such dates are within a reasonable period. The average is to be determined in the manner described above in this Section 5(I). If the fair market value of the Common Stock cannot be determined on the basis previously set forth in this Section 5(I) on the date as of which fair market value is to be determined, the Committee shall in good faith determine the fair market value of the Common Stock on such date. Fair market value shall be determined without regard to any restriction other than a restriction which, by its terms, will never lapse.

(J) The obligation of the Corporation to issue shares of Common Stock under the Plan shall be subject to (i) the effectiveness of a registration statement under the Securities Act of 1933, as amended, with respect to such shares, if deemed necessary or appropriate by counsel for the Corporation, (ii) the condition that the shares shall have been listed (or authorized for listing upon official notice of issuance) upon each stock exchange, if any, on which the Common Stock shares may then be listed and (iii) all other applicable laws, regulations, rules and orders which may then be in effect.

Subject to the foregoing provisions of this Section and the other provisions of the Plan, any stock option granted under the Plan to employees or consultants may be exercised at such times and in such amounts and be subject to such restrictions and other terms and conditions, if any, as shall be determined, in its discretion, by the Committee and set forth in the agreement referred to in Section 5(H), or an amendment thereto.

## SECTION 6

### Terms and Conditions of Restricted Shares

Restricted share awards shall be evidenced by a written agreement in the form prescribed by the Committee in its discretion, which shall set forth the number of shares of Common Stock awarded, the restrictions imposed thereon (including, without limitation, restrictions on the right of the grantee to sell, assign, transfer or encumber such shares while such shares are subject to other restrictions imposed under this Section 6), the duration of such restrictions, the events (which may, in the discretion of the Committee, include performance-based events) the occurrence of which would cause a forfeiture of the restricted shares in whole or in part and such other terms and



conditions as the Committee in its discretion deems appropriate. Restricted share awards shall be effective only upon execution of the applicable restricted share agreement by the Corporation and the grantee.

Following a restricted share award and prior to the lapse or termination of the applicable restrictions, the Committee shall deposit share certificates for such restricted shares in escrow. Upon the lapse or termination of the applicable restrictions (and not before such time), the grantee shall be issued or transferred share certificates for the restricted shares. From the date a restricted share award is effective, the grantee shall be a shareholder with respect to all the shares represented by such certificates and shall have all the rights of a shareholder with respect to all such shares, including the right to vote such shares and to receive all dividends and other distributions paid with respect to such shares, subject only to the restrictions imposed by the Committee.

If an awardee of restricted shares engages in the operation or management of a business (whether as owner, partner, officer, director, employee or otherwise and whether during or after termination of employment) which is in competition with the Corporation or any of its Subsidiaries, the Committee may immediately declare forfeited all restricted shares held by the grantee as to which the restrictions have not yet lapsed; provided, however, that this sentence shall not apply if the lapse of the restrictions applicable to the restricted shares has been accelerated as provided in Section 8(D). Whether a grantee has engaged in the operation or management of a business which is in competition with the Corporation or any of its subsidiaries shall also be determined, in its discretion, by the Committee, and any such determination by the Committee shall be final and binding.

## SECTION 7

### Adjustment and Substitution of Shares

If a dividend or other distribution shall be declared upon the Common Stock payable in shares of Common Stock, the number of shares of Common Stock then subject to any outstanding stock options, the number of shares of Common Stock which may be issued under the Plan but are not then subject to outstanding stock options and the maximum number of shares as to which stock options or restricted shares may be granted and as to which shares may be awarded during any calendar year under Section 3, shall be adjusted by adding thereto the number of shares of Common Stock which would have been distributable thereon if such shares had been outstanding on the date fixed for determining the shareholders entitled to receive such stock dividend or distribution. Shares of Common Stock so distributed with respect to any restricted shares held in escrow shall also be held by the Corporation in escrow and shall be subject to the same restrictions as are applicable to the restricted shares on which they were distributed.

If the outstanding shares of Common Stock shall be changed into or exchangeable for a different number or kind of shares of stock or other securities of the Corporation or another corporation, or cash or other property, whether through reorganization, reclassification, recapitalization, stock split-up, combination of shares, merger or consolidation, then there shall be substituted for each share of Common Stock subject to any then outstanding stock option, and for each share of Common Stock which may be issued under the Plan but which is not then subject to any outstanding stock option, the number and kind of shares of stock or other securities (and in the case of outstanding options, the cash or other property) into which each outstanding share of the Common Stock shall be so changed or for which each such share shall be exchangeable. Unless otherwise determined by the Committee in its discretion, any such stock or securities, as well as any cash or other property, into or for which any restricted shares held in escrow shall be changed or exchangeable in any such transaction shall also be held by the Corporation in escrow and shall be subject to the same restrictions as are applicable to the restricted shares in respect of which such stock, securities, cash or other property was issued or distributed.

In case of any adjustment or substitution as provided for in this Section 7, the aggregate option price for all shares subject to each then outstanding stock option prior to such adjustment or substitution shall be the aggregate option price for all shares of stock or other securities

(including any fraction), cash or other property to

which such shares shall have been adjusted or which shall have been substituted for such shares. Any new option price per share or other unit shall be carried to at least three decimal places with the last decimal place rounded upwards to the nearest whole number.

If the outstanding shares of the Common Stock shall be changed in value by reason of any spin-off, split-off or split-up, or dividend in partial liquidation, dividend in property other than cash, or extraordinary distribution to shareholders of the Common Stock, (a) the Committee shall make any adjustments to any then outstanding stock option which it determines are equitably required to prevent dilution or enlargement of the rights of optionees which would otherwise result from any such transaction, and (b) unless otherwise determined by the Committee in its discretion, any stock, securities, cash or other property distributed with respect to any restricted shares held in escrow or for which any restricted shares held in escrow shall be exchanged in any such transaction shall also be held by the Corporation in escrow and shall be subject to the same restrictions as are applicable to the restricted shares in respect of which such stock, securities, cash or other property was distributed or exchanged.

No adjustment or substitution provided for in this Section 7 shall require the Corporation to issue or sell a fraction of a share or other security. Accordingly, all fractional shares or other securities which result from any such adjustment or substitution shall be eliminated and not carried forward to any subsequent adjustment or substitution. Owners of restricted shares held in escrow shall be treated in the same manner as owners of Common Stock not held in escrow with respect to fractional shares created by an adjustment or substitution of shares, except that, unless otherwise determined by the Committee in its discretion, any cash or other property paid in lieu of a fractional share shall be subject to restrictions similar to those applicable to the restricted shares exchanged therefor.

If any such adjustment or substitution provided for in this Section 7 requires the approval of shareholders in order to enable the Corporation to grant incentive stock options, then no such adjustment or substitution shall be made without the required shareholder approval. Notwithstanding the foregoing, in the case of incentive stock options, if the effect of any such adjustment or substitution would be to cause the stock option to fail to continue to qualify as an incentive stock option or to cause a modification, extension or renewal of such stock option within the meaning of Section 424 of the Code, the Committee may elect that such adjustment or substitution not be made but rather shall use reasonable efforts to effect such other adjustment of each then outstanding stock option as the Committee, in its discretion, shall deem equitable and which will not result in any disqualification, modification, extension or renewal (within the meaning of Section 424 of the Code) of such incentive stock option.

In the case of an adjustment in the number of shares of Common Stock set forth in Section 5(D) of the Plan on account of a dividend or other distribution declared upon the Common Stock payable in shares of the Common Stock, the adjustment provided for in the first paragraph of this Section 7 may not be given any or only limited effect with respect to awards subsequent to the date of the adjustment if the Board should determine at the time of such dividend or other distribution that no or a specified limited adjustment would be more appropriate for purposes of the Plan. Similarly, the adjustment provided for in the second paragraph of this Section 7 may be given a specified limited effect if the Board should determine at the time of the transaction otherwise occasioning such adjustment such limited effect would be more appropriate for purposes of the Plan.

## SECTION 8

### Additional Rights in Certain Events

#### (A) Definitions.

For purposes of this Section 8, the following terms shall have the following meanings:

(1) The term "Person" shall be used as that term is used in Sections 13(d) and 14(d) of the Exchange Act.

(2) Beneficial Ownership shall be determined as provided in Rule 13d-3 under the Exchange Act as in effect on the effective date of the Plan.

(3) Voting Shares shall mean all securities of a company entitling the holders thereof to vote in an annual election of Directors (without consideration of the rights of any class of stock other than the Common Stock to elect Directors by a separate class vote); and a specified percentage of Voting Power of a company shall mean such number of the Voting Shares as shall enable the holders thereof to cast such percentage of all the votes which could be cast in an annual election of directors (without consideration of the rights of any class of stock other than the Common Stock to elect Directors by a separate class vote).

(4) Tender Offer shall mean a tender offer or exchange offer to acquire securities of the Corporation (other than such an offer made by the Corporation or any Subsidiary), whether or not such offer is approved or opposed by the Board.

(5) Section 8 Event shall mean the date upon which any of the following events occurs:

(a) The Corporation acquires actual knowledge that any Person other than the Corporation, a Subsidiary or any employee benefit plan(s) sponsored by the Corporation has acquired the Beneficial Ownership, directly or indirectly, of securities of the Corporation entitling such Person to 20% or more of the Voting Power of the Corporation;

(b) The occurrence of the date provided for in action by the Board or the Committee, if any, to accelerate the exercise date of stock options and/or to release restrictions on restricted shares with respect to any award, following the making of a Tender Offer to acquire securities of the Corporation entitling the holders thereof to 20% or more of the Voting Power of the Corporation; or

(c) The occurrence of the date provided for in action by the Board or the Committee, if any, to accelerate the exercise date of stock options and/or to release restrictions on restricted shares with respect to any award, following the making of a solicitation subject to Rule 14a-11 under the Exchange Act (or any successor Rule) relating to the election or removal of 50% or more of the members of any class of the Board by any person other than the Corporation; or

(d) The shareholders of the Corporation shall approve a merger, consolidation, share exchange, division or sale or other disposition of assets of the Corporation as a result of which the shareholders of the Corporation immediately prior to such transaction shall not hold, directly or indirectly, immediately following such transaction a majority of the Voting Power of (i) in the case of a merger or consolidation, the surviving or resulting corporation, (ii) in the case of a share exchange, the acquiring corporation or (iii) in the case of a division or a sale or other disposition of assets, each surviving, resulting or acquiring corporation which, immediately following the transaction, holds more than 10% of the consolidated assets of the Corporation immediately prior to the transaction;

provided, however, that (i) if securities beneficially owned by a grantee are included in determining the Beneficial Ownership of a Person referred to in paragraph 5(a), (ii) a grantee is required to be named pursuant Item 2 of the Schedule 14D-1 (or any similar successor filing requirement) required to be filed by the bidder making a Tender Offer referred to in paragraph 5(b) or (iii) if a grantee is a participant as defined in 14a-11 under the Exchange Act (or any successor Rule) in a solicitation (other than a solicitation by the Corporation) referred to in paragraph 5(c), then no Section 8 Event with respect to such grantee shall be deemed to have occurred by reason of such event.

**(B) Acceleration of the Exercise Date of Stock Options.**

Subject to the provisions of Section 4 in the case of incentive stock options, unless the agreement referred to in Section 5(H), or an amendment thereto, shall otherwise provide, notwithstanding any other provision contained in the Plan, in case any Section 8 Event occurs all outstanding stock options (other than those held by a person referred to in the proviso to Section 8(a)(5)) shall become immediately and fully exercisable whether or not otherwise exercisable by their terms.

**(C) Extension of the Expiration Date of Stock Options.**

Subject to the provisions of Section 4 in the case of incentive stock options and to the extent any stock options are exercisable on the date of the grantee's termination of employment, unless the agreement referred to in Section 5(H), or an amendment thereto, shall otherwise provide, notwithstanding any other provision contained in the Plan, all stock options held by a grantee (other than a grantee referred to in the proviso to Section 8(a)(5)) whose employment with the Corporation or a Subsidiary terminates within one year of any Section 8 Event for any reason other than voluntary termination with the consent of the Corporation or a Subsidiary, retirement under any retirement plan of the Corporation or a Subsidiary or death shall be exercisable for a period of three months from the date of such termination of employment, but in no event after the expiration date of the stock option.

**(D) Lapse of Restrictions on Restricted Share Awards.**

If any Section 8 Event occurs prior to the scheduled lapse of all restrictions applicable to restricted share awards under the Plan (other than those held by a person referred to in the proviso to Section 8(a)(5)), then unless the agreement referred to in Section 6, or an amendment thereto, shall otherwise provide, all such restrictions shall lapse upon the occurrence of any such Section 8 Event regardless of the scheduled lapse of such restrictions.

**SECTION 9**

**Effect of the Plan on the Rights of Participants and the Corporation**

Neither the adoption of the Plan nor any action of the Board or the Committee pursuant to the Plan shall be deemed to give any employee, consultant or Non-Employee Director any right to be granted a stock option (with or without cash payment rights) or to be awarded restricted shares under the Plan. Nothing in the Plan, in any stock option, in cash payment rights granted under the Plan, in any restricted share award under the Plan or in any agreement providing for any of the foregoing shall confer any right to any employee to continue in the employ of the Corporation or any Subsidiary or any consultant or Non-Employee Director to continue as a consultant or Non-Employee Director of the Corporation or interfere in any way with the rights of the Corporation or any Subsidiary to terminate the employment of any employee or relationship with a consultant at any time or with the rights of the shareholders of the Corporation or the Board to elect and remove Non-Employee Directors.

**SECTION 10**

**Amendment**

The right to amend the Plan at any time and from time to time and the right to revoke or terminate the Plan are hereby specifically reserved to the Board; provided that no amendment of the Plan shall be made without shareholder approval (1) if the effect of the amendment is (a) to make any changes in the class of employees eligible to receive incentive stock options under the Plan, (b) to increase the number of shares with respect to which incentive stock options may be granted under the Plan or (2) if shareholder approval of the amendment is at the time required (a) by the rules of the NASDAQ National Market System or any stock exchange on which the Common Stock may then be listed or (b) for stock options granted under the Plan to qualify as performance based compensation as then defined in the regulations under Section 162(m) of the Code. No

Edgar Filing: RESPIRONICS INC - Form DEF 14A

alteration, amendment, revocation or termination of the Plan shall, without the written consent of the holder of a stock option, cash payment rights or restricted shares theretofore awarded under the Plan, adversely affect the rights of such holder with respect thereto.



**SECTION 11**

**Effective Date and Duration of Plan**

The effective date and date of adoption of the Plan shall be September 29, 2000, the date of adoption of the Plan by the Board, provided that such adoption of the Plan by the Board is approved by a majority of the votes cast at a duly held meeting of shareholders held on or prior to September 28, 2001 at which a quorum representing a majority of the outstanding voting stock of the Corporation is, either in person or by proxy, present and voting. No stock option granted under the Plan may be exercised, and no restricted shares may be awarded until after such approval. No stock option or cash payment rights may be granted and no restricted shares may be awarded under the Plan subsequent to September 29, 2010.

**SECTION 12**

**Withholding**

Income or employment taxes may be required to be withheld by the Corporation or a Subsidiary in connection with the exercise of a stock option, upon a disqualifying disposition of the shares acquired upon exercise of an incentive stock option, at the time restricted shares are granted or vest or upon the receipt by the grantee of cash in payment of cash payment rights or dividends, if any, on restricted stock which has not vested. To the extent required by applicable Federal, state, local or foreign law, the grantee shall make arrangements satisfactory to the Corporation, in its discretion for the satisfaction of any withholding tax obligations that arise in connection with the Plan. The Corporation shall not be required to issue any Common Stock or make any cash payment under the Plan until such obligations are satisfied.

Edgar Filing: RESPIRONICS INC - Form DEF 14A

This proxy is solicited on behalf of the Board of Directors and will be voted as specified. If no choice is specified, this proxy will be voted FOR Items 1, 2, and 3. A vote FOR the election of nominees listed includes discretionary authority to vote for a substitute if any nominee is unable to serve or for good cause will not serve.

Please mark your votes as indicated in this example x

1. Election of Directors. NOMINEES: 01 Joseph C. Lawyer, 02 Sean McDonald, and 03 John C. Miles II to the class of 2006.

FOR all nominees (listed above  
except as noted to the contrary)  
..

WITHHOLD AUTHORITY to vote  
for all nominees listed above  
..

2. To ratify the selection of Ernst & Young LLP as independent public accountants for the fiscal year ending June 30, 2004.

FOR  
..

AGAINST  
..

3. To approve the adoption of an amendment to the Respironics, Inc. 2000 Stock Incentive Plan to increase the number of shares available for grant by 1,876,000 shares to a total of 3,276,000 shares.

FOR  
..

AGAINST  
..

Instruction: To withhold authority to vote for any nominee, write that nominee's name in the space provided below.

---

PLEASE SIGN, DATE AND MAIL YOUR PROXY TODAY!

Signature \_\_\_\_\_

Signature \_\_\_\_\_

Date:

Shareholder(s) signature should correspond to the name(s) shown hereon. (Executors, Administrators, Trustees, etc. should so indicate when signing.)

---

FOLD AND DETACH HERE

RESPIRONICS, INC.

1010 Murry Ridge Lane

Murrysville, PA 15668

ANNUAL MEETING OF SHAREHOLDERS, NOVEMBER 18, 2003

Gerald E. McGinnis, James W. Liken and Dorita A. Pishko, or any of them, are hereby appointed proxies with full power of substitution, to vote the shares of the shareholder(s) named on the reverse side hereof at the Annual Meeting of Shareholders of Respironics, Inc. to be held at 1010 Murry Ridge Lane, Murrysville, Pennsylvania, on November 18, 2003, at 5:15 p.m. and at any adjournment thereof, as directed hereon, and in their discretion to vote and act upon any other matters as may properly come before this meeting.

(Continued on reverse side)

---

FOLD AND DETACH HERE