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ZOLL

It's about time.

reliable clinically proven safe
life saving unique low energy reliable

clinically proven safe life saving unique low energy reliable clinically

proven safe life saving unique low energy reliable

2000 Annual Report

ZOLL

PROVEN TECHNOLOGY. DEMONSTRATED RESULTS. THE BIPHASIC WAVEFORM OF THE FUTURE.

2000 Year in Review: Strong Growth, Higher Future Expectations

- Sales grew by 35%, exceeding the \$100 million mark for the first time
- Fiscal 2000 sales were nearly double those of FY1998
- Diluted earnings per share reached record levels, increasing 55% over 1999 pro forma diluted earnings per share
- Direct sales resources increased 35% in North America, Europe, the United Kingdom and Asia
- The clinical benefits of the ZOLL Rectilinear Biphasic waveform were solidly established
- Westech operations were successfully integrated into Pinpoint Technologies, yielding advanced data management capabilities for emergency medical service providers



ON THE COVER:

The ZOLL Rectilinear Biphasic Waveform

A graphic representation of the unique shape of the Rectilinear Biphasic waveform. Biphasic waveforms deliver a two-phase, reversing current to the heart. ZOLL's unique waveform shape provides a constant current and fixed duration in the first phase, which brings higher efficacy and patient safety to defibrillation.

ZOLL Corporate Profile

ZOLL Medical Corporation's (NASDAQ: ZOLL) products are used both in hospitals and by emergency medical services (EMS) personnel for lifesaving resuscitation of patients suffering cardiac arrest and for the treatment of patients with life-threatening cardiac arrhythmias. ZOLL designs, manufactures and markets an integrated line of proprietary noninvasive cardiac resuscitation devices, disposable electrodes and accessories for cardiac defibrillation, cardioversion, pacing and monitoring.

ZOLL products for EMS use also include diagnostic 12-Lead electrocardiography systems for prehospital cardiac diagnosis and software systems for EMS data collection and management.

Dear Shareholders, Customers and Employees:

Fiscal 2000 was a very successful year for ZOLL. Sales grew by 35 percent, exceeding \$100 million for the first time. Sales grew in all market segments, at a faster rate than they did in the rest of our industry. This growth was fueled by strong adoption of the M Series and the introduction of several new product features.

In addition to strong sales growth, our operating margin for the year reached 11.4 percent, a significant improvement from the 9.5 percent in fiscal 1999. Diluted earnings per share grew 55 percent to \$1.07, a new record as compared to pro forma diluted earnings per share from 1999.

In February 2000, we completed a successful secondary stock offering that brought us net proceeds of \$67 million. The addition of these funds, coupled with our robust sales and earnings performance, greatly strengthened our balance sheet. We entered fiscal 2001 with significant cash reserves to fund new product development, expansion into new markets and entry into the public access defibrillation (PAD) market.

Additionally, we made significant headway in developing the market for our new biphasic waveform, which we introduced in October 1999. Sales and marketing efforts focused on educating medical professionals about the clinical superiority of our unique, proprietary technology. These efforts have created high levels of acceptance of the ZOLL Rectilinear Biphasic waveform.

Sales of equipment in the prehospital market increased 46 percent in North America, to \$27.9 million. We achieved this increase by adding several new capabilities to the M Series, including 12-Lead electrocardiography and end-tidal CO₂ monitoring (which monitors respiration by measuring levels of expired carbon dioxide). Respected organizations, including La Corporation d'urgences-santé, in Montréal, Canada, one of the largest and most well-regarded EMS providers in North America, have switched to the M Series.

In the highly competitive hospital market, ZOLL sales in North America totaled \$40.6 million, an increase of 31 percent from fiscal 1999. Growth in this segment also was driven by the M Series, which continues to outperform competitive offerings.

ZOLL's international business segment also achieved strong growth in Fiscal 2000. Sales climbed 58 percent to \$21.6 million. During the year, we strengthened our European presence with the expansion of direct sales capabilities in Germany, the Netherlands and Scotland. Many major EMS providers and hospitals throughout Europe and the Far East have switched to ZOLL defibrillators, including the German Army and the Tokyo Fire Department.

In our software business, we improved efficiencies and product offerings. To maximize data compatibility, coordination and synergies between our data management division and our prehospital resuscitation business, we consolidated our Westech software business into Pinpoint Technologies, acquired by ZOLL in October 1999. Our advanced data management products

are an important part of our plan for future growth as market pressures force prehospital service providers to adopt new software solutions to remain competitive.

ZOLL is well positioned to capitalize on market growth and capture more sales. In the past year, the Company increased its worldwide sales force by 35 percent. Moreover, with the growing preference for biphasic technology, we anticipate that many of the nearly 500,000 installed defibrillators will be replaced with a better technology—keeping the cardiac resuscitation market increasingly robust in the years ahead.

As monophasic technology becomes obsolete, we believe ZOLL is positioned to capture a larger share of the biphasic defibrillation market. ZOLL is well differentiated in this market in two critically important ways. First, ZOLL has the most published data demonstrating the clinical superiority of its low-energy biphasic waveform as compared to standard monophasic waveforms. And second, ZOLL is the only company that has received clearance from the U.S. Food and Drug Administration (FDA) to make superiority claims for its biphasic technology.

Beyond ZOLL's current markets, there is tremendous potential in the PAD market. This market segment will likely exceed \$100 million next year and is expected to continue growing at an annual rate of more than 30 percent, making it attractive for a ZOLL product. During the past year, a highly focused product development team has gained an extensive understanding of the market and its needs through customer research; has refined our product strategy; and is moving rapidly toward bringing ZOLL into this fast-growing new segment of the industry.

Our company will continue to benefit from the solid leadership provided by our Board of Directors and management team. In early 2000, Benson F. Smith joined our Board of Directors, following a 25-year career at C.R. Bard, Inc. While at Bard, he served in a number of executive positions, most recently as Chief Operating Officer. In addition, Dr. Willard M. Bright has been appointed Chairman Emeritus in recognition of his years of visionary leadership as a member of our Board of Directors.

On behalf of the Board, I wish to thank you, our customers, shareholders and employees for your continued support and confidence in our company. ZOLL achieved tremendous success last year. With your commitment in Fiscal Year 2001, we will further expand our presence in key markets, broaden our product portfolio with a PAD product and take full advantage of the clinical superiority of our Rectilinear Biphasic technology. We look ahead to a very promising future.

Sincerely,



Richard A. Packer
Chairman and Chief Executive Officer

Proven Technology, Demonstrated Results—The ZOLL Biphasic Waveform

ZOLL Medical—Technology Leadership by Innovation

ZOLL Medical has long been a leader in cardiac resuscitation. The Company's pioneering efforts in external pacing led to technology that remains a clinical "gold standard" today. Its development of the first multi-function disposable electrodes helped to advance resuscitation technology. ZOLL's introduction of the M Series set the industry benchmark for lightweight, compact and technically advanced defibrillators.

Last year, ZOLL once again advanced technology with the introduction of a potentially revolutionary, low-energy biphasic waveform—for low-energy defibrillation, cardioversion (restoration of normal heart rhythm) and cardiac resuscitation.

The Challenges of Defibrillation and ZOLL's Biphasic Answer

Defibrillation, which delivers an electrical shock to the heart, is a lifesaving intervention, but not one without side effects. Too little energy may not correct a fatal arrhythmia; too much may result in heart muscle or tissue damage. Clearly, the challenge is to deliver sufficient energy to be clinically effective, at energy levels low enough to ensure patient safety.

The answer is a biphasic waveform. Already proven equivalent in efficacy to conventional defibrillation waveforms, biphasic waveforms have shown great promise. However, not until ZOLL demonstrated the clinical efficacy of its proprietary Rectilinear Biphasic waveform did a superior therapy emerge, at lower energies.

Market Acceptance of the ZOLL Rectilinear Biphasic Waveform

- *Clinically Demonstrated*—The clinical superiority of the ZOLL Rectilinear Biphasic waveform is well documented in a growing number of published studies. Included are studies demonstrating that the Rectilinear Biphasic waveform provides superior efficacy in defibrillating ventricular fibrillation in high impedance patients and in cardioverting atrial fibrillation. Based on these studies, the FDA has given ZOLL clearance to claim its waveform is clinically superior to conventional monophasic waveforms.
- *Scientifically Validated*—Both the American Heart Association and the European Resuscitation Council guidelines now incorporate biphasic waveforms delivering energy levels of 200 joules or less as a "standard of care." The latest guidelines also recognize that functional and morphological damage to the heart muscle may result if defibrillation energy and current are too high. These guidelines validate the market position of ZOLL's waveform.
- *Medically Beneficial*—The ZOLL Rectilinear Biphasic waveform can help clinicians provide better care. ZOLL biphasic devices have successfully cardioverted patients that could not be successfully treated with high-energy, conventional defibrillators. Using significantly lower energy levels with better patient outcomes provides meaningful benefits to both physician and patient, including fewer patient problems, reduced incidence of skin burns and minimized risk of cardiac side effects.

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I thought I'd have to live with atrial fibrillation for the rest of my life.

In 1996, I underwent my first cardioversion with a monophasic defibrillator. But last year, I was back in atrial fibrillation again and had to undergo another monophasic cardioversion. I felt like I'd been kicked in the chest by a horse; it burned my skin and it didn't work.

So three months ago, I tried once again...this time with the new (ZOLL) biphasic. And it worked! No problem with the feeling and no burns. It was a much better experience.

Michael Edwards
Information Retrieval Manager
Los Angeles, CA



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The ZOLL Rectilinear Biphasic Waveform—Rapid Adoption into Clinical Practice

- By the close of fiscal 2000, 40% of ZOLL's defibrillator customers had ordered the M Series with the new Rectilinear Biphasic waveform.
- A growing number of hospital systems, including the University of Pittsburgh Medical Center Health System and Kaiser Permanente in California, have already committed to plans to fully convert all defibrillation equipment to biphasic, in lieu of incremental replacements of older monophasic devices.
- GE Medical Systems Company has licensed ZOLL's Rectilinear Biphasic waveform for its defibrillator and monitoring systems, a major step toward setting a new standard in cardiac care.
- Many key clinicians predict complete market acceptance of biphasic defibrillators within a year.

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ZOLL Biphasic: The Science Behind the Success

The effectiveness of defibrillation shock is related to a number of controllable factors—voltage, current, duration and phase ratio. But uncontrolled external factors, such as patient size, weight and chest anatomy, affect the waveform and thereby alter its effectiveness. Combined, these external factors offer resistance (impedance) to the passage of the electricity. High impedance patients can actually reduce the amount of current that reaches the heart, rendering defibrillation ineffective. Conversely, low impedance increases the current, potentially damaging heart muscle. An ideal waveform accounts for all of these factors.

ZOLL's research demonstrated that the most effective waveform will have a constant shape and duration during discharge, regardless of patient impedance. Other biphasic designs compensate for patient differences by changing shape and duration, altering important waveform characteristics and potentially compromising defibrillation efficacy.

The science behind the clinical success of the ZOLL waveform is the development of a unique new method of maintaining a stable waveform shape and duration during each defibrillator discharge.

The Uniqueness of the ZOLL Rectilinear Biphasic Waveform

- *Impedance Control*—ZOLL has developed a novel method for controlling the impedance in the defibrillation circuit during discharge. Within the device, a resistor bridge is dynamically adjusted to “force” the electricity into a stable waveform regardless of the patient factors that affect other waveforms.
- *Constant Current*—ZOLL biphasic technology delivers adequate average current during defibrillation without the need for the typical high peak current other designs require.
- *Lower Energy*—The ZOLL waveform design requires 68 percent less current than conventional monophasic waveforms to achieve superior results in treating atrial fibrillation. Lower current reduces the risk of skin effects, such as burns and scabbing, by approximately 94 percent.
- *Reduced Dysfunction*—Studies now confirm that lower energy reduces myocardial dysfunction after defibrillation, which may be an important factor in successfully restoring adequate circulation following cardiac arrest.

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From the start of our experience with the Rectilinear Biphasic waveform we felt there was a difference.

Improvements in therapy and medicine have to be proven by careful study and analysis. We have now reported on our experience with over 300 patients and the statistical data are clear. This waveform works better than any other that we've tested. Others have confirmed our reported success and expanded on it.

Our best endorsement of the technology comes every day, since it's the technology we prefer for defibrillation and cardioversion.

Bruce Lerman, MD
Chief, Division of Cardiology
Cornell University
Medical Center

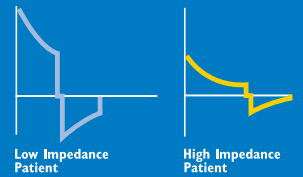


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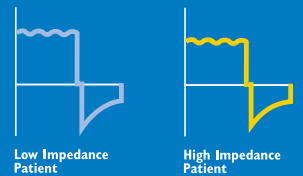
The Difference Is Shaping Up

Not all biphasic waveforms are alike. The shape of a defibrillating waveform is critical to its effectiveness. Changes in waveform shape resulting from patient impedance can significantly affect clinical performance. Only the ZOLL Rectilinear Biphasic waveform delivers a constant shape and duration regardless of impedance level.

Conventional Biphasic Waveform



ZOLL Rectilinear Biphasic Waveform



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ZOLL Medical Corporation Five Year Financial Summary

	YEAR ENDED				
	Sept. 30, 2000	Oct. 2, 1999	Sept. 26, 1998	Sept. 27, 1997 ¹	Sept. 28, 1996
<small>(000's omitted, except per share data)</small>					
Income Statement Data:					
Net sales	\$106,336	\$78,682	\$57,520	\$57,833	\$55,700
Cost of goods sold	46,351	32,486	24,268	25,372	24,545
Gross profit	59,985	46,196	33,252	32,461	31,155
Expenses:					
Selling and marketing	31,238	24,364	20,152	18,484	16,773
General and administrative	8,606	7,422	6,239	6,749	4,809
Research and development	7,973	6,916	6,583	6,430	4,464
Total expenses	47,817	38,702	32,974	31,663	26,046
Income from operations	12,168	7,494	278	798	5,109
Net investment income (expense)	1,803	(45)	413	355	278
Income before income taxes	13,971	7,449	691	1,153	5,387
Provision for income taxes	5,169	2,010	18	266	1,758
Net income	\$8,802	\$5,439	\$673	\$887	\$3,629
Basic earnings per common share	\$1.11	\$0.82	\$0.10	\$0.13	\$0.55
Weighted average common shares outstanding	7,930	6,656	6,602	6,602	6,562
Diluted earnings per common and equivalent share	\$1.07	\$0.79	\$0.10	\$0.13	\$0.55
Weighted average common and equivalent shares outstanding	8,231	6,893	6,647	6,650	6,635
Pro forma information ² :					
Historical income before taxes		\$7,449			
Pro forma incremental operating costs		272			
Pro forma income before income taxes		7,177			
Pro forma provision for income taxes		2,402			
Pro forma net income		\$4,775			
Pro forma diluted earnings per share		\$0.69			
Balance Sheet Data:					
Working capital	\$101,991	\$26,728	\$21,678	\$24,361	\$25,303
Total assets	\$137,808	\$59,687	\$46,656	\$45,013	\$42,507
Total long-term debt, excluding current portion	-	\$2,069	\$446	\$565	\$713
Stockholders' equity	\$122,416	\$41,222	\$34,787	\$34,463	\$33,614

¹ For the year ended September 27, 1997, excluding a one-time charge taken in Q1 aggregating \$2,300, net income would have been \$2,405 and earnings per common and equivalent share would have been \$0.36.

² Pro forma information reflects the effect of (i) incremental operating costs expected to be incurred by the Company as a result of the Pinpoint merger and (ii) the provision for corporate income taxes on the previously untaxed Subchapter S corporation earnings of Pinpoint. See Note B to the consolidated financial statements.

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

You should read the following discussion and analysis in conjunction with our financial statements and related notes included herein. All prior year results have been restated to account for the Pinpoint Technologies, Inc. acquisition on October 15, 1999, as a pooling of interests.

2000 Compared to 1999

Net sales reached record levels, increasing 35% from the prior year to \$106.3 million, reflecting continued acceptance and increased penetration of the full featured M Series platform across each of our markets. Our continued sales growth reflects an increase in the size of the North American sales force as well as strong shipments to the International market.

We experienced 30% annual sales growth over 1999 in the North American market as sales reached \$84.7 million. Within North America, equipment sales to the prehospital and hospital markets increased 46% and 31%, to \$27.9 million and \$40.6 million, respectively. Sales in the International market increased 58% from the prior year to a record level of \$21.6 million, reflecting continued widespread geographic growth. International sales in 2000 benefited from shipments related to a significant contract to provide AED's to the Germany Army.

Gross margin of 56.4% decreased from 1999 reflecting volume pricing on Germany Army shipments. In addition, gross margin was also reduced as the rate of capital equipment revenue growth exceeded that of higher margin electrodes and data management products. This decrease was partially offset by increased sales of new monitoring parameters, which we have added to our M Series platform.

Selling and marketing costs increased 28% over the prior year due to the increase in size of our North American and International sales forces. Selling and marketing costs as a percentage of sales decreased from 31% to 29.4%. In the North American market, sales productivity increased as a result of increasing our total number of sales people and reducing the size of individual sales territories. Our International expenses increased primarily reflecting the expansion of our direct sales force in Europe, including Germany, the Netherlands and Scotland.

General and administrative expenses decreased as a percentage of sales, from 9% to 8%, due to emphasis on expense controls and absorption of relatively fixed expenses by higher sales.

Research and development expenses increased 15.3% from the prior year, reflecting continued development of our cardiac resuscitation equipment. Significant initiatives included spending on our biphasic technology, new monitoring parameters for our M Series platform as well as new product development for the public access market. Research and development expenses, as a percentage of sales, decreased from 9% to 8%, reflecting our higher level of sales.

We recognized net investment income in 2000 compared to net interest expense in 1999, due to the increase in average cash and investment balances from 1999 to 2000, largely reflecting investments in short-term debt and equity securities during the year. During 2000, we generated net proceeds of approximately \$67 million from our secondary offering. Our effective income tax rate increased from 34% in 1999 to 37% in 2000. During 1999, our effective tax rate was reduced by the utilization of certain foreign net operating loss carryforwards.

1999 Compared to 1998

Net sales increased 37% from the prior year to \$78.7 million, reflecting the rapid market acceptance of the M Series platform introduced to the market during the fourth quarter of 1998. Sales growth also reflected the reorganization and enlargement of the North American sales force to allow for a market-focused structure. Selling teams were changed to focus on each of North America's markets: hospital and prehospital.

We experienced significant growth in all major geographies and segments of our business. During 1999, North American sales increased 36% to \$65.0 million. Within North America, equipment sales to the hospital and prehospital markets increased 55% and 28%, to \$30.9 million and \$19.1 million, respectively. Sales in the International market increased 39% from the prior year.

Gross margin increased approximately 1% over the prior year. We experienced an improvement in costs reflecting the M Series introduction and higher margins from information management products, primarily Pinpoint products.

Selling and marketing costs increased 21% over the prior year, due to the increase in size of the North American sales force. Additionally, we established a direct sales force in Germany during the fourth quarter of 1999. Selling and marketing costs as a percentage of sales decreased from 35% to 31%, reflecting revenues that increased more rapidly than these costs as a result of the reorganization of the North American sales force.

General and administrative expenses decreased as a percentage of sales, from 11% to 9%, due to emphasis on expense controls and absorption of relatively fixed expenses by higher sales.

Research and development expenses decreased as a percentage of sales, from 11% to 9%. Total expenses increased slower than revenues, reflecting the completion of development of the initial M Series platform and the related transfer of available resources to the biphasic project and other initiatives.

We incurred net interest expense in 1999, as compared to net investment income in 1998, due to the decrease in average cash balances from 1998 to 1999.

Liquidity and Capital Resources

Our cash and cash equivalents at September 30, 2000 totaled \$4.0 million compared to \$1.8 million at October 2, 1999. In addition, we had short-term investments amounting to \$51.8 million at September 30, 2000. This significant increase in liquidity reflects the proceeds from our secondary stock offering of 1,725,000 shares of common stock during the second quarter of 2000.

Cash used for operating activities totaled \$7.9 million in 2000, while cash used over the same period in 1999 totaled \$0.3 million. Significant uses of cash included increases in our accounts receivable and inventory levels. Both increases reflected the significant domestic and international sales growth of our Company. The increase in inventory levels reflected a dramatic increase in the number of product combinations, which our customers can now purchase as a result of our introduction of new monitoring parameters to our M Series platform. In addition, our prepaid expenses increased over the prior year, reflecting excess payments of income taxes during the year ended September 30, 2000.

The amount of cash used to fund investing activities increased from the prior year by \$55.9 million. This increase reflected investment of the proceeds of our secondary stock offering in short-term investments and an increase in capital expenditures. Significant capital expenditures included the purchase of our new Enterprise Wide Resource Planning (ERP) System and the expansion of our Burlington, Massachusetts factory.

The increase in cash provided by financing activities of \$69.4 million primarily results from our secondary stock offering and the exercise of stock options. We also used \$2.2 million to repay long-term debt.

We maintain a working capital line of credit with our bank. Borrowings under this line bear interest at the bank's base rate (8.59% at September 30, 2000). The full amount of the line was available to us at September 30, 2000. Currently, we may borrow up to \$12.0 million on a demand basis.

We expect that the combination of existing funds, cash generated from operations and our existing line of credit will be adequate to meet our operational liquidity and capital requirements for the foreseeable future.

Safe Harbor Statements

Except for the historical information contained herein, the matters set forth herein are forward looking statements within the meaning of Section 27A of the Securities Act of 1933 as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are subject to certain risks and uncertainties that could cause actual results to differ materially from those set forth in the forward looking statements. Such risks and uncertainties include, the following general risks: product demand and market acceptance risks, the effect of economic conditions, results of pending or future litigation, the impact of competitive products and pricing, product development and commercialization, technological difficulties, the government regulatory environment and actions, trade environment, capacity and supply constraints or difficulties, the results of financing efforts, actual purchases under agreements, potential warranty issues and the effect of the Company's accounting policies. In addition, we are subject to the following specific risks, which are described in greater detail in our Form 10K which we expect to file with the Securities and Exchange Commission on or about December 29, 2000. If we fail to compete successfully in the future against existing or potential competitors, our operating results may be adversely affected; our operating results are likely to fluctuate which could cause our stock price to be volatile and the anticipation of a volatile stock price can cause greater volatility. We may be required to implement a costly product recall. We can be sued for producing defective products and we may be required to pay significant amounts to those harmed if we are found liable and our business could suffer from adverse publicity. Our dependence on sole and single source suppliers exposes us to supply interruptions that could result in product delivery delays and substantial costs to redesign our products. Our reliance on independent manufacturers creates several risks that could result in product delivery delays, increased costs and other adverse effects on our business. Failure to produce new products or obtain market acceptance for our new products in a timely manner could harm our business. We may not be able to obtain appropriate regulatory approvals for our products. If we fail to comply with applicable regulatory laws and regulations, the FDA or other regulatory bodies could exercise any of their regulatory powers that could have a material adverse effect on our business. We are dependent upon licensed and purchased technology for upgradeable features in our products and we may not be able to renew these licenses or purchase agreements in the future. Future changes in applicable laws and regulations could have an adverse effect on our business. Changes in the health care industry may require us to decrease the selling price for our products or could result in a reduction in the size of the market for our products, each of which could have a negative impact on our financial performance. Uncertain customer decision processes may result in long sales cycles which could result in unpredictable fluctuations in revenues and delays in replacement of cardiac resuscitation devices. Our international sales expose our business to a variety of risks that could result in significant fluctuations in our results of operations. Fluctuations in currency exchange rates may adversely affect our international sales. We may fail to adequately protect or enforce our intellectual property rights or secure rights to third party patents, and our competitors can use some of our previously proprietary technology. Reliance on overseas vendors for some of the components for our products exposes us to international business risks, which could have an adverse effect on our business. We rely heavily on several employees who may leave, and tight labor markets may make it difficult to recruit employees. We may acquire other businesses and we may have difficulty integrating these businesses or generating an acceptable return from acquisitions. Provisions in our charter documents, our stockholders rights agreement and state law may make it harder for others to obtain control of ZOLL even though some stockholders might consider such a development to be favorable. We have only one manufacturing facility for each of our major products and any damage or incapacitation of either of the facilities could impede our ability to produce these products. Our current and future investments may lose value in the future. We may experience short-term operating fluctuations as we introduce our new biphasic technology.

Report of Independent Auditors

Board of Directors and Stockholders ZOLL Medical Corporation

We have audited the accompanying consolidated balance sheets of ZOLL Medical Corporation as of September 30, 2000 and October 2, 1999, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended September 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ZOLL Medical Corporation at September 30, 2000 and October 2, 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 2000, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

November 11, 2000
Boston, Massachusetts

ZOLL Medical Corporation Consolidated Balance Sheets

(000's omitted)	Sept. 30, 2000	Oct. 2, 1999
Assets		
Current assets:		
Cash and cash equivalents	\$4,025	\$1,821
Marketable securities	51,823	-
Accounts receivable, less allowances of \$1,895 at September 30, 2000 and \$2,096 at October 2, 1999	37,325	25,464
Inventories:		
Raw materials	7,762	5,332
Work-in-process	2,749	2,623
Finished goods	9,787	5,241
	20,298	13,196
Prepaid expenses and other current assets	3,489	2,296
Total current assets	116,960	42,777
Property and equipment at cost:		
Land and building	3,434	3,432
Machinery and equipment	18,247	15,382
Construction in progress	1,647	1,077
Tooling	5,268	2,695
Furniture and fixtures	1,203	883
Leasehold improvements	1,194	737
	30,993	24,206
Less accumulated depreciation	14,647	10,875
Net property and equipment	16,346	13,331
Other assets, net of accumulated amortization of \$1,011 at September 30, 2000 and \$711 at October 2, 1999	4,502	3,579
	\$137,808	\$59,687
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$8,140	\$8,404
Accrued expenses and other liabilities	6,809	7,481
Current maturities of long-term debt	20	164
Total current liabilities	14,969	16,049
Deferred income taxes	423	347
Long-term debt	-	2,069
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value, authorized 1,000 shares, none issued and outstanding		
Common stock, \$.02 par value, authorized 19,000 shares, 8,798 and 6,772 issued and outstanding at September 30, 2000 and October 2, 1999, respectively	176	136
Capital in excess of par value	94,799	22,439
Accumulated other comprehensive income	177	-
Retained earnings	27,264	18,647
Total stockholders' equity	122,416	41,222
	\$137,808	\$59,687

See notes to consolidated financial statements.

ZOLL Medical Corporation Consolidated Income Statements

	YEAR ENDED		
	Sept. 30, 2000	Oct. 2, 1999	Sept. 26, 1998
<small>(000's omitted, except per share data)</small>			
Net sales	\$106,336	\$78,682	\$57,520
Cost of goods sold	46,351	32,486	24,268
Gross profit	59,985	46,196	33,252
Expenses:			
Selling and marketing	31,238	24,364	20,152
General and administrative	8,606	7,422	6,239
Research and development	7,973	6,916	6,583
Total expenses	47,817	38,702	32,974
Income from operations	12,168	7,494	278
Investment income	2,015	124	487
Interest expense	212	169	74
Income before income taxes	13,971	7,449	691
Provision for income taxes	5,169	2,010	18
Net income	\$8,802	\$5,439	\$673
Basic earnings per common share	\$1.11	\$0.82	\$0.10
Weighted average common shares outstanding	7,930	6,656	6,602
Diluted earnings per common and equivalent share	\$1.07	\$0.79	\$0.10
Weighted average common and equivalent shares outstanding	8,231	6,893	6,647

Unaudited pro forma information (Note B):

Historical income before taxes	\$7,449
Pro forma incremental operating expenses	272
Pro forma income before income taxes	7,177
Pro forma provision for income taxes	2,402
Pro forma net income	\$4,775
Pro forma diluted earnings per share	\$0.69

ZOLL Medical Corporation Statements of Stockholders' Equity and Comprehensive Income

(000's omitted)	Common Shares	Amount	Capital in Excess of Par Value	Accumulated Comprehensive Income	Retained Earnings	Total Stockholders' Equity
Balance at September 27, 1997	6,561	\$131	\$20,635	-	\$13,697	\$34,463
Issuance of common stock by Pinpoint Technologies, Inc	41	1	48			49
Adjustments to conform to pooled companies fiscal year-ends					(140)	(140)
Distributions by Pinpoint Technologies, Inc					(258)	(258)
Net income					673	673
Balance at September 26, 1998	6,602	132	20,683	-	13,972	34,787
Exercise of stock options	147	3	1,129			1,132
Tax benefit realized upon exercise of stock options			628			628
Initial capitalization of Pinpoint Property Management, LLC	23	1	(1)			-
Contributions by Pinpoint Technologies, Inc shareholders					550	550
Distributions by Pinpoint Technologies, Inc					(1,314)	(1,314)
Net income					5,439	5,439
Balance at October 2, 1999	6,772	136	22,439	-	18,647	41,222
Exercise of stock options	298	6	2,143			2,149
Tax benefit realized upon exercise of stock options			3,096			3,096
Stock compensation	3		77			77
Proceeds from sale of common stock, net of expenses	1,725	34	67,044			67,078
Distributions by Pinpoint Technologies, Inc					(185)	(185)
Comprehensive income:						
Net income					8,802	8,802
Unrealized gain on available-for-sale securities				\$177		177
Total Comprehensive income						8,979
Balance at September 30, 2000	8,798	\$176	\$94,799	\$177	\$27,264	\$122,416

ZOLL Medical Corporation Consolidated Statements of Cash Flows

(000's omitted)	Sept. 30, 2000	YEAR ENDED Oct. 2, 1999	Sept. 26, 1998
Operating Activities:			
Net income	\$8,802	\$5,439	\$673
Charges not affecting cash:			
Depreciation and amortization	4,283	3,035	1,478
Issuance of common stock for services	77	-	49
Accounts receivable allowances	(201)	1,294	243
Inventory reserve	372	129	53
Provision for warranty expense	178	180	(43)
Deferred income taxes	195	(339)	188
Changes in current assets and liabilities:			
Accounts receivable	(11,660)	(12,129)	114
Inventories	(7,474)	(3,920)	(1,982)
Prepaid expenses and other current assets	(1,312)	1,358	(1,715)
Accounts payable and accrued expenses	(1,114)	4,686	1,212
Cash provided by (used for) operating activities	(7,854)	(267)	270
Investing Activities:			
Additions to property and equipment, net	(7,006)	(3,530)	(4,493)
Purchase of marketable securities	(59,646)	(419)	(2,675)
Proceeds from sales and maturities of marketable securities	8,000	419	2,953
Other assets, net	(1,215)	(402)	(62)
Acquisition of assets from Westech Information Systems, Inc.	-	-	(3)
Cash used for investing activities	(59,867)	(3,932)	(4,280)
Financing Activities:			
Proceeds from sale of common stock, net of expenses	67,078	-	-
Exercise of stock options, including income tax benefits	5,245	1,760	-
Distributions to stockholders	(185)	(1,314)	(258)
Contributions from stockholders	-	550	-
Repayment of long-term debt	(2,213)	(497)	(127)
Cash provided by (used for) financing activities	69,925	499	(385)
Net increase (decrease) in cash	2,204	(3,700)	(4,395)
Cash and cash equivalents at beginning of year	1,821	5,521	9,916
Cash and cash equivalents at end of year	\$4,025	\$1,821	\$5,521
Supplemental disclosures of cash flow information:			
Cash paid during the year:			
Income taxes	\$4,243	\$555	\$1,002
Interest	212	169	74
Non-cash transaction:			
Long-term debt incurred in purchase of assets	-	\$1,800	-

See notes to consolidated financial statements.

ZOLL Medical Corporation Notes to Consolidated Financial Statements

Note A-Significant Accounting Policies

Description of Business: ZOLL Medical Corporation (the Company) designs, manufactures and markets an integrated line of proprietary, non-invasive cardiac resuscitation devices, disposable electrodes and accessories used for the emergency resuscitation of cardiac arrest victims. The Company also designs and markets software, which automates collection and management of both clinical and non-clinical data for emergency medical service providers.

Business Combination: As described in Note B, on October 15, 1999, the Company acquired Pinpoint Technologies, Inc. and Pinpoint Property Management LLC (Pinpoint, individually and collectively) in a business combination accounted for as a pooling of interests. The accompanying consolidated financial statements reflect the combined historical results of the Company and of Pinpoint for the periods ended October 2, 1999 and September 26, 1998.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Fiscal Year: The Company's fiscal year ends on the Saturday closest to September 30. The year ended October 2, 1999 included 53 weeks and the years ended September 30, 2000 and September 26, 1998 included 52 weeks. In October of 2000 the Company changed its fiscal year end to the Sunday closest to September 30.

Cash and Cash Equivalents: The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents. Substantially all cash and cash equivalents are invested in a money market investment account. These amounts are stated at cost, which approximates market.

Marketable Securities: The Company accounts for marketable securities in accordance with Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities" (FAS 115). FAS 115 establishes the accounting and reporting requirements for all debt securities and for investments in equity securities that have readily determinable fair values. All marketable securities must be classified as one of the following: held-to-maturity, available-for-sale, or trading. The Company classifies its marketable securities as available-for-sale and, as such, carries the investments at fair value, with unrealized holding gains and losses reported as a separate component of stockholders' equity.

Concentration of Risk: The Company sells its products primarily to hospitals, emergency care providers and universities. The Company performs periodic credit evaluations of its customers' financial condition and does not require collateral.

In addition, the Company sells its products to the international market. Although the Company does not foresee a credit risk associated with these receivables, repayment is dependent upon the financial stability of the national economies of the customers to which it sells. In order to hedge the risk of loss in geographical areas with historical credit risks, in some cases the Company requires letters of credit from its foreign customers. Export sales accounted for 26%, 19% and 18% of the Company's total revenues in 2000, 1999, and 1998, respectively.

The Company maintains reserves for potential trade receivable credit losses, and such losses have been within management's expectations.

Certain materials and components used in the Company's devices and electrodes are purchased from various single sources. Although the Company believes that alternative sources of supply for such materials and components could be developed over a relatively short period of time, the failure to secure such alternative sources when needed could have a material adverse effect on the Company's business.

Financial Instruments: The fair value of the Company's financial instruments, which include cash and cash equivalents, marketable securities, accounts receivable, and accounts payable, are based on assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of perceived risk. The carrying value of these financial instruments approximated their fair value at September 30, 2000 and at October 2, 1999 due to the short-term nature of these instruments.

Inventories: Inventories, principally purchased parts, are valued at the lower of first-in, first-out (FIFO) cost or market. Market is replacement value for raw materials and net realizable value, after allowance for estimated costs of completion and disposal, for work-in-process and finished goods.

Intangible Assets: Patents are stated at cost and amortized using the straight-line method over five years. Prepaid license fees are amortized over the term of the related contract, once commercialization of the related product begins. The excess of cost over fair value of the acquired net assets of the mobile computing business of Westech Information Systems, Inc. is amortized on a straight-line basis over 15 years. The acquisition was accounted for as a purchase, and the purchase price was allocated to the assets acquired and liabilities assumed based on their respective fair values at the date of acquisition.

Property and Equipment: Property and equipment are stated at cost. In general, depreciation is computed on a straight-line basis over the estimated economic useful lives of the assets (forty years for buildings, three to ten years for machinery and equipment and five years for tooling, furniture, fixtures, and software). Leasehold improvements are being amortized over the life of the related lease.

Revenue Recognition: Revenue from product sales is recognized upon shipment of the product and recorded net of estimated returns. The Company licenses software under non-cancelable license agreements and provides services including training, installation, consulting and maintenance, consisting of product support services and periodic updates. Revenue from the sale of software is recognized in accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, Software Revenue Recognition. License fee revenues are generally recognized when a non-cancelable license agreement has been signed, the software product has been shipped, there are no uncertainties surrounding product acceptance, the fees are fixed and determinable, and collection is considered probable. For customer license agreements, which meet these recognition criteria, the portion of the fees related to software licenses will generally be recognized in the current period, while the portion of the fees related to services is recognized as the services

are performed. The Company allocates a portion of contractual license fees to post-contract support activities covered under the contract including first year maintenance, installation assistance and limited training services. In addition, the Company also allocates a portion of the contractual license fees to future unspecified upgrade rights. Revenues from maintenance agreements and upgrade rights are recognized ratably over a three-month period, and a one-year period, respectively.

Advertising Costs: Advertising costs are expensed as incurred and totaled \$757,000, \$481,000 and \$409,000 in 2000, 1999 and 1998 respectively.

Product Warranty: Expected future product warranty costs, included in accrued expenses and other liabilities, are recognized at the time of sale for all products covered under warranty. Warranty periods range from one to five years.

Foreign Currency: The financial position and results of operations of the company's foreign subsidiaries are measured using the U.S. dollar as the functional currency. All material translation and transaction gains and losses are recorded in the income statement.

Earnings Per Share: In 1998, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share," which requires the presentation of basic and diluted earnings per share amounts. All periods presented have been restated to reflect adoption of this statement.

The shares used for basic earnings per common share and diluted earnings per common share are reconciled as follows:

(000's omitted)	2000	1999	1998
Average shares outstanding			
for basic earnings per share	7,930	6,656	6,602
Dilutive effect of stock options	301	237	45
Average shares outstanding			
for diluted earnings per share	8,231	6,893	6,647

Reclassifications: Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the 2000 presentation.

Use of Estimates: The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stock Option Plans: As permitted by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), the Company measures compensation expense for its stock-based compensation plans using the intrinsic method prescribed by Accounting Principles Board No. 25, "Accounting for Stock Issued to Employees." In accordance with SFAS 123, the Company has provided, in Note J, the pro forma disclosures of the effect on net income and earnings per share as if SFAS 123 had been applied in measuring compensation expense for all periods presented.

Segment Reporting: Effective October 2, 1999, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosure About Segments of an Enterprise and Related Information" (SFAS 131). This statement supersedes Statement No. 14, "Financial Reporting for Segments of a Business Enterprise." SFAS 131 establishes standards for the way that public companies report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. SFAS 131 also establishes standards for disclosures about products and services, geographic areas and major customers. The adoption of SFAS 131 did not affect results of operations or financial position, but did affect the disclosure of segment information (see Note L).

Comprehensive Income: The Company computes comprehensive income in accordance with Statement of Financial Accounting Standards No. 130 "Reporting Comprehensive Income" (FAS 130). FAS 130 establishes standards for the reporting and display of comprehensive income and its components in the financial statements. Comprehensive income, as defined, includes all changes in equity during a period from non-owner sources, such as unrealized gains and losses on available-for-sale securities. Comprehensive income was equal to net income for the years ended October 2, 1999 and September 26, 1998 since there were no other elements of comprehensive income.

Recent Accounting Pronouncements: In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Financial Instruments and for Hedging Activities," which provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. SFAS 133, effective for years beginning after June 15, 2000, is not expected to have a material effect on the Company's financial statements.

In 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) 101, Revenue Recognition in Financial Statements, which must be adopted no later than the fourth fiscal quarter of the fiscal year beginning after December 15, 1999. The Company is currently evaluating the effects of implementing this SAB, but it is not expected to have a material effect on the Company's financial statements.

In March 2000, the Financial Accounting Standards Board issued FASB Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation", an interpretation of APB Opinion No. 25 "Accounting for Stock Issued to Employees" (APB 25). Interpretation 44 clarifies guidance for certain issues that arose in the application of APB 25. Areas of focus within Interpretation 44 include repricings, modifications to extend the option term, change of grantee status, modifications to accelerate vesting and options exchanged in a purchase business combination. Interpretation 44 will be applied prospectively to new awards, modifications to outstanding awards, and changes in employee status on or after October 1, 2000.

Note B-Merger

On October 15, 1999, the Company acquired Pinpoint in a business combination accounted for as a pooling of interests. Pinpoint, which creates, develops and manufactures advanced information technology software, exclusively focused on the emergency medical services (EMS) market, became a wholly owned subsidiary of the Company through the exchange of approximately 433,000 shares of the Company's common stock for all of the outstanding stock of Pinpoint. In January 1999, Pinpoint distributed cash to the stockholders of Pinpoint. All of the cash distributed was contributed to newly formed Pinpoint Property Management LLC, and used to fund the equity needed to acquire an office building (see Note G).

Summarized results of operations of the separate companies for the preceding two years are as follows (in thousands):

	ZOLL	Pinpoint	Combined
Year ended October 2, 1999			
Net sales	\$73,977	\$4,705	\$78,682
Net income	4,081	1,358	5,439
Year ended September 26, 1998			
Net sales	\$55,080	\$2,440	\$57,520
Net income	43	630	673

An adjustment of \$140,000 is reflected in the consolidated Statements of Stockholders' Equity to eliminate the effect of including Pinpoint's results of operations for the three months ended December 31, 1997, in both the years ended September 27, 1997 and September 26, 1998.

The following unaudited pro forma information has been prepared assuming Pinpoint had been acquired as of the beginning of the periods presented. The pro forma information is presented for informational purposes only and is not necessarily indicative of what would have occurred if the acquisition had been made as of those dates. In addition, the pro forma information is not intended to be a projection of future results and does not reflect synergies resulting from the integration of Pinpoint and the Company's Westech business.

(000's omitted, except per share data)	1999
Net sales	\$78,682
Net income	\$4,775
Basic earnings per common share	\$0.72
Diluted earnings per common share	\$0.69

The following table reconciles the combined net income of the Company and Pinpoint to the pro forma net income:

(000's omitted)	1999
Combined net income	\$5,439
Pro forma income tax adjustment on Pinpoint's S Corporation earnings	392
Pro forma incremental operating costs	272
Pro forma net income	<u>\$4,775</u>

The pro forma income tax adjustment assumes Pinpoint was a taxable entity subject to tax at ZOLL's incremental tax rate for the periods presented. The pro forma operating expenses were incurred as a result of the merger.

Note C-Marketable Securities

Marketable securities and debt securities are classified as available-for-sale at September 30, 2000. There were no investments in marketable securities at October 2, 1999. At September 30, 2000, available-for-sale securities consisted of:

(000's omitted)

US Treasury Bonds	\$17,566
Corporate Obligations	16,708
Repurchase Agreements	17,549
	<u>\$51,823</u>

The securities are carried at fair value, with unrealized gains and losses reported in a separate component of stockholders' equity. At September 30, 2000, the difference between the cost basis and the estimated market value on the security portfolio amounted to a \$177,000 gain. The maturity periods on the majority of securities held is within one year, with \$16,352,000 maturing in one to five years. The cost of securities sold is based on the specific identification method. Realized gains and losses, and declines in value judged to be other than temporary, are included in investment income.

Note D-Investments

During 1996, the Company invested \$2 million in the common stock of Lifecor, Inc. As of September 30, 2000 and October 2, 1999, this investment represented approximately 3.8% and 6.0% of Lifecor's outstanding common stock, respectively. The Company accounts for this investment at cost, which approximates market. This investment is included in other assets on the balance sheet.

Note E-Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of:

(000's omitted)	Sept. 30, 2000	Oct. 2, 1999
Deferred income taxes-Note H	\$1,403	\$1,522
Prepaid income taxes	1,399	-
Other	687	774
Total prepaid expenses and other current assets	<u>\$3,489</u>	<u>\$2,296</u>

Note F-Accrued Expenses and Other Liabilities

Accrued liabilities consist of:

(000's omitted)	Sept. 30, 2000	Oct. 2, 1999
Accrued salaries and wages and related expenses	\$2,820	\$2,588
Accrued warranty expense	1,311	1,133
Accrued income taxes	-	1,164
Other accrued expenses	2,678	2,596
Total accrued expenses and other liabilities	<u>\$6,809</u>	<u>\$7,481</u>

Note G-Indebtedness

The Company maintains an unsecured working capital line of credit with its bank. This line of credit bears interest at the bank's base rate of 8.59% at September 30, 2000. The full amount of the line (\$12.0 million) was available to the Company at September 30, 2000.

In 1994, the Company purchased land and building, which replaced leased operating facilities, for \$900,000. The land and building were mortgaged under a \$900,000 bank note bearing interest at 8.2%. During the year ended September 30, 2000, the Company repaid the entire balance of the outstanding mortgage note payable.

Also included in long-term debt is a promissory note (the Note) entered into in March 1999 by Pinpoint in order to acquire an office building. The Note bears interest at 7.95% per annum, is due in monthly installments of approximately \$18,000 with final payment due March 2014. During the year ended September 30, 2000, the Company repaid the entire balance of the Note.

At October 2, 1999, long-term debt consisted of:

(000's omitted)

Mortgage notes payable	\$2,233
Less current portion	164
	<u>\$2,069</u>

Note H-Income Taxes

The provision for income taxes consists of the following:

(000's omitted)

	2000	1999	1998
Federal:			
Current	\$4,262	\$1,941	\$(277)
Deferred	167	(58)	194
	<u>4,429</u>	<u>1,883</u>	<u>(83)</u>
State:			
Current	712	370	107
Deferred	28	(18)	(6)
	<u>740</u>	<u>352</u>	<u>101</u>
Foreign:			
Current	-	37	-
Deferred	-	(262)	-
	<u>-</u>	<u>(225)</u>	<u>-</u>
	<u>\$5,169</u>	<u>\$2,010</u>	<u>\$18</u>

The following table shows income (loss) before taxes:

(000's omitted)

	2000	1999	1998
Domestic	\$14,433	\$6,479	\$821
Foreign	(462)	970	(130)
	<u>\$13,971</u>	<u>\$7,449</u>	<u>\$691</u>

The income taxes recorded differed from the statutory federal income tax rate due to:

(000's omitted)

	2000	1999	1998
Statutory income taxes	\$4,896	\$2,132	\$21
Tax credits, federal and state	(299)	(48)	-
State income taxes, net of federal benefit	500	229	32
Unbenefited (benefited) foreign loss	-	(262)	-
Permanent differences	(25)	35	35
Other	97	(76)	(70)
	<u>\$5,169</u>	<u>\$2,010</u>	<u>\$18</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's deferred tax assets and liabilities are as follow:

(000's omitted)	Sept. 30, 2000	Oct. 2, 1999
Deferred tax assets:		
Accounts receivable and inventory	\$898	\$999
Net operating loss carryforwards	-	68
Product warranty accruals	506	408
Purchased research and development	279	297
Other liabilities	445	258
Total deferred tax assets	2,128	2,030
Deferred tax liabilities:		
Accelerated tax depreciation	867	712
Prepaid expenses	281	143
Total deferred tax liabilities	1,148	855
Net deferred tax asset	\$980	\$1,175

Prior to the merger Pinpoint elected to be taxed under the Subchapter S provisions of the Internal Revenue Code. Accordingly, Pinpoint's income or loss was included in the stockholders' individual income tax returns.

Note I-Commitments and Contingencies

In the course of normal operations, the Company is involved in litigation arising from commercial disputes and claims from former employees which management believes will not have a material impact on the Company's financial position or its results of operations.

The Company leases certain office and manufacturing space under operating leases. Listed below are the future minimum rental payments required under operating leases with non-cancelable terms in excess of one year at September 30, 2000.

2001	\$431
2002	404
2003	323
2004	38
2005	32
	\$1,228

The Company's office leases are subject to adjustments based on actual floor space occupied. The leases also require payment of real estate taxes and operating costs. In addition to the office leases, the Company leases automobiles for business use by a portion of the sales force. Total rental expense under operating leases for 2000, 1999, and 1998 was approximately \$1,059,000, \$907,000 and \$728,000, respectively.

Note J-Stockholder's Equity

Preferred Stock: The Board of Directors is authorized to fix the designations, relative rights, preferences and limitations on the Preferred Stock at the time of issuance. On June 8, 1998, the Company's Board of Directors adopted a Shareholder Rights Plan. In connection with the Shareholder Rights Plan, the Board of Directors declared a dividend distribution of one Preferred Stock purchase right for each outstanding share of Common Stock to stockholders of record as of the close of business day on June 9, 1998. Initially, these rights are not exercisable and trade with the shares of ZOLL's Common Stock. Under the Shareholder Rights Plan, the rights generally become exercisable if a person becomes an "acquiring person" by acquiring 15% or more of the Common Stock of ZOLL, if a person who owns 10% or more of the Common Stock of ZOLL is determined to be an "adverse person" by the Board of Directors or if a person commences a tender offer that would result in that person owning 15% or more of the Common Stock of ZOLL. Under the Shareholder Rights Plan, a shareholder of ZOLL who beneficially owns 15% or more of the Company's Common Stock as of June 9, 1998 generally will be deemed an "acquiring person" if such shareholder acquires additional shares of the Company's Common Stock. In the event that a person becomes an "acquiring person" or is declared an "adverse person" by the Board, each holder of a right (other than the acquiring person or the adverse person) would be entitled to acquire such number of shares of Preferred Stock which are equivalent to ZOLL Common Stock having a value of twice the then-current exercise price of the right. If ZOLL is acquired in a merger or other business combination transaction after any such event, each holder of a right would then be entitled to purchase, at the then-current exercise price, shares of the acquiring company's Common Stock having a value twice the exercise price of the right.

Sale of Common Stock: During 2000, the Company completed a secondary offering of 1,725,000 shares of common stock in exchange for net proceeds of approximately \$67 million, net of \$5 million for underwriters discounts and other expenses incurred with the offering.

Stock Purchase Rights: On September 25, 1995, Pinpoint granted employee stock purchase rights which entitled the employee to obtain 3% of the then existing shares at a nominal price. The stock purchase rights vest 25% at the end of one year of employment, another 25% vesting over the next three years, and the remaining 50% vesting over the next six years. The rights to purchase 12,650 shares of common stock automatically vested upon the acquisition of Pinpoint. As of September 30, 2000, the rights to purchase 3,650 shares of common stock had not been exercised.

Stock Option Plans: The Company's 1983 and 1992 stock option plans provide for the granting of options to officers and other key employees to purchase the Company's Common Stock at a purchase price, in the case of incentive stock options, at least equal to the fair market value per share of the outstanding Common Stock of the Company at the time the option is granted, as determined by the Compensation Committee of the Board of Directors. Options are no longer granted under the 1983 plan. The options become exercisable ratably over two or four years and have maximum duration of 10 years. The Company's Non-employee Director Stock Option Plan provides for the granting of options to purchase shares of Common Stock to Directors of the Company who are not also employees of the Company or any subsidiary of the Company. The options vest in four equal annual installments over a four year period. The options may be exercised at a price equal to the fair market value of the Common Stock on the date the option is granted.

The number of shares authorized for these plans was 2,545,000. Approximately 1,244,000 shares of Common Stock are reserved for issuance under the Company's stock option plans as of September 30, 2000.

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 (FAS 123), "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized with respect to the Company's stock option grants. Had compensation cost for this plan been determined based on the fair value methodology prescribed by FAS 123, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below.

(000's omitted, except per share data)

	2000	1999	1998
Net income-as reported	\$8,802	\$5,439	\$673
Net income pro forma	\$7,618	\$4,956	\$313
Basic earnings per common share-as reported	\$1.11	\$0.82	\$0.10
Diluted earnings per common and equivalent share-as reported	\$1.07	\$0.79	\$0.10
Basic earnings per common share-pro forma	\$0.96	\$0.74	\$0.05
Diluted earnings per common and equivalent share-pro forma	\$0.93	\$0.72	\$0.05

The above pro forma amounts may not be representative of the effects on reported net earnings for future years. The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2000, 1999 and 1998:

(000's omitted)

	2000	1999	1998
Dividend yield	0%	0%	0%
Expected volatility	5.86%	6.56%	6.48%
Risk-free interest rate	6.21%	5.11%	4.53%
Expected lives	5 years	5 years	5 years

Activity as to stock options under the two plans is as follows:

	2000		1999		1998	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
(000's omitted, except per share data)						
Outstanding at the beginning of the year	866	\$7.98	909	\$7.23	793	\$11.02
Granted during the year	368	32.41	253	10.11	214	7.08
Exercised during the year	(298)	7.16	(147)	7.70	-	-
Cancelled during the year	(103)	12.51	(149)	6.06	(98)	9.05
Outstanding at the end of the year	833	\$19.94	866	\$7.98	909	\$7.23
Available for grant at the end of the year	411		341		145	
Weighted-average fair value of options granted during the year		\$17.87		\$6.83		\$4.12
Weighted-average exercise price of options exercisable at the end of the year		\$7.71		\$7.14		\$7.20

The following table summarizes information about stock options outstanding at September 30, 2000.

(000's omitted, except per share data)

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$0.020	4	9.04 years	\$0.02	-	-
\$3.690-\$8.750	334	6.79 years	\$7.29	246	\$7.18
\$9.000-\$12.313	144	8.49 years	\$11.01	38	\$10.90
\$25.875	170	9.04 years	\$25.88	-	-
\$32.188-\$38.250	136	9.80 years	\$37.02	-	-
\$43.125	30	9.89 years	\$43.13	-	-
\$51.250	15	9.57 years	\$51.25	-	-
	833			284	

Under the Company's 1992 stock option plan, 417,850 options ranging in option price from \$10.00 to \$14.75 per share were repriced to \$6.88 per share during 1998. This repricing was accomplished by canceling the existing options and issuing new options at new prices with vesting schedules recommencing as of the date of reprice. The purpose of this transaction was to restore the incentive effect of such options. In all other respects, the Plan remained unchanged.

Note K-Employee Benefit Plan

Defined contribution retirement plan—ZOLL has a defined contribution retirement plan which contains a "401 (k)" program for all employees with three months of service who have attained 21 years of age. Participants in the Plan may contribute up to 15% of their eligible compensation. Effective January 1, 2000, the Plan was amended to provide for an employer match of 25% of the employee contribution up to 7% of eligible compensation. Prior to January 1, 2000, the Company made discretionary contributions. The Company contributed \$125,000 to the Plan in 2000 and \$100,000 in 1999 and 1998.

401 (k) Salary Deferral Plan—Beginning in 1998, Pinpoint has maintained a retirement savings plan (the Plan) pursuant to which eligible employees may defer compensation for income tax purposes under section 401 (k) of the Internal Revenue code of 1986. Participants in the Plan may contribute up to 15% of their eligible compensation which are matched by the company at 50% of the employee contribution up to 6% of eligible compensation. Pinpoint may make discretionary matching contributions to the Plan in an amount determined by its Board of Directors. Pinpoint recorded expense related to the Plan of approximately \$55,000, \$29,000 and \$11,000 in 2000, 1999 and 1998, respectively.

Note L-Segment and Geographic Information

Segment Information: The Company reports revenue information to the chief operating decision maker for four operating segments, determined on the type of customer or product. These segments consist of (1) the sale of cardiac resuscitation devices and accessories to the North American hospital market, (2) the sale of the same items and data collection management software to North American prehospital market, (3) the sale of disposable/other products in North America, (4) the sale of cardiac resuscitation devices and accessories and disposable electrodes to the international market. Each of these segments has similar characteristics, manufacturing processes, distribution and marketing strategies, as well as a similar regulatory environment.

In order to make operating and strategic decisions, ZOLL's chief operating decision maker evaluates revenue performance based on the worldwide revenues of each segment and, due to shared infrastructures, profitability based on an enterprise-wide basis. Net sales by segment were as follows:

(000's omitted)	2000	1999	1998
Hospital Market-North America devices	\$40,555	\$30,868	\$19,962
Prehospital Market-North America devices	27,930	19,115	14,914
Other-North America	16,254	15,035	12,841
International Market-excluding North America	21,597	13,664	9,803
	\$106,336	\$78,682	\$57,520

The Company reports assets on a consolidated basis to the chief operating decision maker.

Geographic information: Net sales by major geographical area, determined on the basis of destination of the goods, are as follows:

(000's omitted, except per share data)	2000	1999	1998
United States	\$79,143	\$63,838	\$46,952
Foreign	27,193	14,844	10,568
	\$106,336	\$78,682	\$57,520

In each of the years in the three year period ended September 30, 2000, no single customer represented over 10% of the Company's consolidated net sales.

Note M-Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for 2000 and 1999 is as follows:

(000's omitted, except per share data)	QUARTER ENDED			
	Jan. 1, 2000	April 1, 2000	Jul. 1, 2000	Sept. 30, 2000
2000				
Net sales	\$24,435	\$25,654	\$27,442	\$28,805
Gross profit	13,592	14,525	15,115	16,753
Income from operations	2,235	2,622	3,260	4,051
Net income	1,364	1,783	2,543	3,112
Basic earnings per common share	\$0.20	\$0.24	\$0.29	\$0.35
Diluted earnings per common and equivalent share	\$0.19	\$0.23	\$0.28	\$0.34

(000's omitted, except per share data)	Jan. 2, 1999*	April 3, 1999	Jul. 3, 1999	Oct. 2, 1999
1999				
Net sales	\$16,056	\$17,941	\$20,812	\$23,872
Gross profit	9,524	10,502	12,314	13,856
Income from operations	876	1,283	2,073	3,262
Net income	702	936	1,534	2,267
Basic earnings per common share	\$0.11	\$0.14	\$0.23	\$0.34
Diluted earnings per common and equivalent share	\$0.10	\$0.14	\$0.22	\$0.32
Pro forma diluted earnings per common share and share equivalent**	\$0.09	\$0.12	\$0.19	\$0.30

*Quarter contains 14 weeks

**Pro forma adjustments have been made to the historical results to include operating costs which are expected to be incurred as a result of the Pinpoint merger and income tax expense, assuming that Pinpoint was a taxable entity subject to ZOLL's incremental tax rate.

Market for Registrant's Common Equity and Related Stockholder Matters

The Company's Common Stock is traded on the National Association of Securities Dealers Automated Quotation (NASDAQ) National Market System under the symbol "ZOLL." The following table sets forth the high and low sales prices during the fiscal quarters specified:

	Sales Prices			
	2000		1999	
	High	Low	High	Low
First Quarter	\$41-3/8	\$22-5/8	\$11-7/16	\$7-1/16
Second Quarter	63-3/4	33-3/16	12-3/4	8-1/2
Third Quarter	59-1/16	37	12-7/8	9
Fourth Quarter	54	32-3/16	31-13/16	11-7/8

The Company has never declared or paid cash dividends on its capital stock. The Company currently intends to retain any future earnings to finance the growth and development of its business, and therefore does not anticipate paying any cash dividends in the foreseeable future.

Executive Officers and Directors

Richard A. Packer

Chairman of the Board & Chief Executive Officer

A. Ernest Whiton

Vice President of Administration &
Chief Financial Officer

Ward M. Hamilton

Vice President, Marketing

E. J. Jones

Vice President, International Sales

Donald R. Boucher

Vice President, Research & Development

Steven K. Flora

Vice President, North American Sales

John Bergeron

Vice President & Corporate Treasurer

Willard M. Bright

Director & Chairman Emeritus

Thomas M. Clafin ⁽¹⁾

Director

M. Stephen Heilman, M.D. ⁽¹⁾

Director

Daniel M. Mulvena ⁽²⁾

Director

Dr. James W. Biondi ⁽²⁾

Director

Benson F. Smith ⁽¹⁾

Director

⁽¹⁾ Member of the Audit Committee

⁽²⁾ Member of the Compensation Committee

Stockholder Information

Stock Listing

ZOLL Medical Corporation Common Stock is traded on the NASDAQ National Market System under the symbol "ZOLL."

Transfer Agent

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Canton, Massachusetts 02021-9187
1-877-282-1169

General Counsel

Goodwin, Procter & Hoar LLP
Boston, Massachusetts

Independent Auditors

Ernst & Young LLP
Boston, Massachusetts

Annual Meeting

The annual meeting of stockholders will be held at 10 a.m. on February 8, 2001 at Goodwin, Procter and Hoar LLP, Conference Center, Exchange Place, 53 State Street, Boston, Massachusetts 02110.

Information Requests

A copy of our Form 10-K, as filed with the Securities & Exchange Commission, may be obtained upon written request to the Company at:

Stockholder Relations
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Burlington, Massachusetts 01803-4420

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