APRIA HEALTHCARE GROUP INC
Form 10-K/A
March 23, 2006

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# FORM 10-K/A

**Amendment No. 1**

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2005

**OR**

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 1-14316

# APRIA HEALTHCARE GROUP INC.

(Exact Name of Registrant as Specified in Its Charter)

| **Delaware** | **33-0488566** |
|---|---|
| (State of Incorporation) | (I.R.S. Employer Identification Number) |
| **26220 Enterprise Court, Lake Forest, CA** | **92630-8405** |
| (Address of Principal Executive Offices) | (Zip Code) |

Registrant s telephone number: (949) 639-2000

Securities registered pursuant to Section 12(b) of the Act:

| **Common Stock, $0.001 par value per share** | **New York Stock Exchange** |
|---|---|
| (Title of each class) | (Name of each exchange on which registered) |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes _X_ No ___

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ___ No _X_

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. _X_

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2 of the Act). Yes __ No _X_

As of June 30, 2005 the aggregate market value of the shares of common stock held by non-affiliates of the Registrant, computed based on the closing sale price of $34.64 per share as reported by the New York Stock Exchange, was approximately $1,698,295,488. As of March 6, 2006, there were 59,352,414 shares of the Registrant s common stock issued and 42,387,229 shares outstanding, par value $0.001, which is the only class of common stock of the Registrant.

**Documents Incorporated by Reference:**

The information called for by Part III is incorporated by reference to the Definitive Proxy Statement for the 2006 Annual Meeting of Stockholders of the Registrant which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2005.

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**EXPLANATORY NOTE**

Apria Healthcare Group Inc. is filing this Amendment No. 1 (this Amendment ) to its Annual Report on Form 10-K for the fiscal year ended December 31, 2005 which was originally filed with the Securities and Exchange Commission on March 16, 2006 ( Original Annual Report ) to correct the following typographical errors in the Consolidated Financial Statements:

(1) Consolidated Statements of Stockholders Equity and Comprehensive Income revised the December 31, 2004 total of Additional Paid-in Capital from $439,534 to $439,544 (dollars in thousands).

(2) Consolidated Statements of Cash Flows revised the total of Net Cash Provided by Financing Activities for the Year ended December 31, 2003 from $12,901 to $112,901 (dollars in thousands).

(3) Notes to the Consolidated Financial Statements Note 3, last table revised the number of shares exercisable in the $6.50 to $10.75 range from 25,588 to 28,588.

This Amendment amends and restates the entire Form 10-K for the prospective readers convenience. This Amendment does not reflect events occurring after the filing of the Original Annual Report. With the exception of the foregoing corrections of typographical errors and a limited number of other immaterial corrections, no other information in the Form 10-K for the fiscal year ended December 31, 2005 has been corrected or amended in this Form 10-K/A.

Pursuant to Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, the certifications pursuant to Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002, filed and furnished, respectively, as exhibits to the Original Annual Report, have been re-executed and re-filed as of the date of this Amendment. Also, Exhibit 23.1, Consent of Deloitte & Touche LLP, has been filed with this amendment. No other exhibits to the Original Annual Report are being re-filed with this Amendment.

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**APRIA HEALTHCARE GROUP INC.**

**PART I**



**PART II**

***Forward Looking Statements***

*This report contains forward-looking statements that are not based on historical facts. All such forward-looking statements are uncertain. Apria has based those forward-looking statements on, among other things, projections and estimates regarding the economy in general, the healthcare industry and other factors that impact Apria s results of operations. These statements involve known and unknown risks, uncertainties and other factors that may cause Apria s actual results, levels of activity, performance or achievements to be materially different from any results, levels of activity, performance or achievements expressed or implied by any forward-looking statements. In some cases, forward-looking statements that involve risks and uncertainties contain terminology such as may, will, should, could, expects, intends, plans, anticipates, believes, estimates, predicts, potential, or continue or variations of these terms or other comparable terminology. See Risk Factors Item 1A.*

## PART I

### ITEM 1. BUSINESS

Apria Healthcare Group Inc. provides a broad range of home healthcare services through approximately 500 branch locations that serve patients in all 50 states. Apria has three major service lines: home respiratory therapy, home infusion therapy and home medical equipment. The following table provides examples of the services and products in each:

| Service Line | Examples of Services and Products |
|---|---|
| Home respiratory therapy | Provision of oxygen systems, stationary and portable ventilators, obstructive sleep apnea equipment, nebulizers, respiratory medications and related clinical/administrative support services |

| Service Line | Examples of Services and Products |
|---|---|
| Home infusion therapy | Intravenous administration of anti-infectives, pain management, chemotherapy, nutrients (also administered through a feeding tube), immune globulin, other medications and related clinical/administrative support services |
| Home medical equipment | Provision of patient safety items, ambulatory aids and in-home equipment, such as wheelchairs and hospital beds |

**Strategy**

Apria s mission is to be the first choice of patients and payors for their homecare needs. Apria has positioned itself in the marketplace as the low cost, quality provider of a broad range of home healthcare services to managed care and Medicare customers. The specific elements of the company s strategy to achieve its mission and optimize its market position are as follows:

Growth - Apria's primary focus is to restore strong organic sales growth following a decline in revenue during the third and fourth quarters of 2005 and to increase market share in its core service lines. The company will continue to invest in service line extensions.

Productivity - Apria continues to leverage its nationwide infrastructure to reduce costs by enhancing best practices and systems investments.

Service - Apria differentiates itself from the competition by setting a high standard for customer service.

People - Apria recruits, develops and advances individuals who are leaders in order to respond to changing market conditions and to maximize sales and earnings growth.

**Service Lines**

In each of its three service lines, Apria provides patients with a variety of clinical and administrative support services, as well as related products and supplies, most of which are prescribed by a licensed physician as part of a care plan. These services include:

- providing in-home clinical respiratory care, infusion and respiratory pharmacy management and high-tech infusion nursing;
- educating patients and their caregivers about illnesses and providing them with written instructions about home safety, self-care and the proper use of their equipment;
- monitoring patients individualized treatment plans;
- reporting patient progress and status to the physician and/or managed care organization;
- providing in-home delivery and set-up of equipment and/or supplies;
- maintaining and repairing equipment; and
- processing claims to third-party payors, billing and collecting patient co-pays and deductibles.

The following table sets forth a summary of net revenues by service line, expressed as percentages of total net revenues:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| Home respiratory therapy | 69% | 68% | 67% |
| Home infusion therapy | 17% | 17% | 18% |
| Home medical equipment/other | 14% | 15% | 15% |
| Total net revenues | 100% | 100% | 100% |

***Home Respiratory Therapy.*** Apria provides home respiratory therapy services to patients with a variety of conditions, including:

- chronic obstructive pulmonary diseases such as emphysema, chronic bronchitis and asthma;
- nervous system-related respiratory conditions such as Lou Gehrig s disease and quadriplegia;
- obstructive sleep apnea;
- congestive heart failure; and
- lung cancer.

Apria employs a nationwide clinical staff of respiratory care professionals to provide direct patient care, monitoring and other support services to its home respiratory therapy patients under physician-directed treatment plans and in accordance with Apria s proprietary acuity program.

Apria derives its respiratory therapy revenues from the provision of oxygen systems, ventilators, non-invasive positive pressure ventilators, continuous positive and bi-level airway pressure devices, as well as from the provision of sleep apnea monitors, nebulizers and home-delivered respiratory medications and related services.

***Home Infusion Therapy.*** Home infusion therapy involves the administration of drugs or nutrients directly into the body intravenously through injection or catheterization. Examples of such therapies include:

- total parenteral (intravenous) nutrition;
- anti-infective and anti-fungal medications;
- chemotherapy; and
- pain management.

The home infusion therapy service line also includes enteral nutrition, which is the administration of nutrients directly into the gastrointestinal tract through a feeding tube.

Depending on the therapy, a broad range of venous access devices and pump technologies may be used to facilitate homecare and patient independence. Apria employs licensed pharmacists and registered high-tech infusion nurses who specialize in the delivery of home infusion therapy. They are available to respond to emergencies and questions regarding therapy 24 hours a day, seven days a week and to provide initial and ongoing training and education to the patient and caregiver. Other support services include supply replenishment, pump management, preventive maintenance, assistance with insurance questions and outcome reporting. Apria currently operates 31 pharmacy locations nationwide to serve its home infusion patients.

***Home Medical Equipment/Other.*** Apria s primary emphasis in the home medical equipment service line is on the provision of equipment to assist patients with ambulation, safety and general care in and around the home. The company also offers rehabilitation products such as customized seating and mobility equipment. Apria s integrated service approach allows patients, hospital and physician referral sources and managed care systems accessing either respiratory or infusion therapy services to also access needed home medical equipment through a single source.

As Apria s managed care customer base has grown, management has recognized the need to expand its ability to provide value-added services to these customers. Rather than provide certain non-core services directly, Apria sometimes aligns itself with other segment leaders, such as home health nursing organizations, providers of home-delivered routine medical supplies or large drug/supply wholesalers, through formal relationships or ancillary networks.

**Organization and Operations**

***Organization.*** Apria s approximately 500 branch locations are organized into three geographic divisions, which are further divided into 15 geographic regions. Each region consists of a number of branches and a regional office. The regional office provides each of its branches with management oversight and administrative and operational support services. The branch delivers home healthcare products and services to patients in their homes and to other care sites through the company s delivery fleet and its qualified delivery professionals and clinical employees.

While management oversight is provided at the division and regional levels, the company s sales and business operations functions are vertically integrated. The operations function is further divided into receivables management, clinical services, logistics, regulatory compliance and acquisition integration. Through this structure, all functions that are performed at the division and regional level have direct reporting and accountability to corporate headquarters. Apria believes that this structure provides control over and consistency among its field locations. In accordance with Apria s strategy to identify opportunities for efficiencies and productivity improvements, management continues to evaluate the feasibility of centralizing certain functions that are currently performed at the region or branch level.

***Corporate Compliance.*** As a leader in the home healthcare industry, Apria has implemented a compliance program to further the company s commitment to providing quality home healthcare services and products while maintaining high standards of ethical and legal conduct. Apria believes that operating its business with integrity and in full compliance with applicable regulations is essential. Apria s Corporate Compliance Program includes a written Code of Ethical Business Conduct that employees receive as part of their initial orientation process. The program is designed to accomplish the goals described above through employee education, a confidential disclosure program, written policy guidelines, periodic reviews, frequent reinforcement, compliance audits, a formal disciplinary component and other programs. Compliance oversight is provided by the Corporate Compliance Committee of the company s Board of Directors, which meets quarterly in conjunction with Apria s

internal Corporate Compliance Committee, consisting of senior and mid-level management personnel from various functional disciplines.

***Internal Audit.*** Apria has an internal audit department which reports directly to the Audit Committee of the Board of Directors and which provides ongoing assessments of Apria s system of disclosure controls and procedures, and internal control over financial reporting. The internal audit department is responsible for both operational and financial reviews of the company s operations, for monitoring compliance with policies and procedures, for the identification and development of best practices within the organization and for confirming compliance with the requirements of the Sarbanes-Oxley Act of 2002.

***Operating Systems and Controls.*** Apria s business is dependent, to a substantial degree, upon the quality of its operating and field information systems for proper contract administration, accurate order entry and pricing, billing and collections, and inventory and patient service equipment management. These systems also provide reporting that enables management to monitor and evaluate contract profitability. Apria s information services department works closely with all of the corporate departments to ensure that Apria s systems are compliant with government regulations and payor requirements and to support their business improvement initiatives with technological solutions. See Risk Factors Operating Systems and Controls.

Apria has established performance indicators which measure operating results against expected thresholds for the purpose of allowing all levels of management to identify and modify areas requiring improvement and to monitor the resulting progress. Operating models with strategic targets have been developed to move Apria toward more effective management of the sales, customer service, accounts receivable, clinical and distribution areas of its business. Apria s management team is compensated using performance-based incentives focused on criteria such as revenue growth and improvement in operating income.

***Payors.*** Apria derives substantially all its revenues from third-party payors, including private insurers, managed care organizations, Medicare and Medicaid. For 2005, approximately 32% of Apria s net revenues were derived from Medicare and 7% from Medicaid. Generally, each third-party payor has specific requirements which must be met before claim submission will result in payment. Apria has policies and procedures in place to manage the claims submission process, including verification procedures to facilitate complete and accurate documentation. See Risk Factors Medicare/Medicaid Reimbursement Rates.

***Receivables Management.*** Apria operates in an environment with complex requirements governing billing and reimbursement for its products and services. Initiatives focused specifically on receivables management such as system enhancements, process refinements and organizational changes have resulted in improvement and consistency in key accounts receivable indicators.

Apria is expanding its use of technology in areas such as electronic claims submission and electronic funds transfer with managed care organizations to more efficiently process business transactions. This can expedite claims processing and reduce the administrative cost associated with this activity for both Apria and its customers/payors. Apria now submits approximately 77% of its claims electronically. Management is also focusing its resources on developing internal expertise with the unique reimbursement requirements of certain large third-party payors, which should help reduce subsequent denials and shorten related collection periods. Apria s policy is to collect co-payments from the patient or applicable secondary payor. In the absence of a secondary payor, Apria generally requires the co-payment at the time the patient is initially established with the product/service. Subsequent months rental fees are billed to the patient. Management is also seeking to streamline related processes in order to maximize the co-payment collection rate.

**Marketing**

Through its field sales force, Apria markets its services primarily to physicians, managed care organizations, hospitals, medical groups, home health agencies and case managers. Apria has developed and put into practice several marketing initiatives, including but not limited to:

***Automated Call Routing Through a Single Toll-Free Number.*** This initiative allows select managed care organizations to reach any of Apria s locations and to access the full range of Apria services through a single central telephone number: 1-800-APRIA-88.

***Accreditation by the Joint Commission on Accreditation of Healthcare Organizations or JCAHO.*** JCAHO is a nationally recognized organization that develops standards for various healthcare industry segments and monitors compliance with those standards through voluntary surveys of participating providers. As the home healthcare industry has grown, the need for objective quality measurements has increased. Accreditation by JCAHO entails a lengthy voluntary review process that is conducted every three years. Accreditation is widely considered a prerequisite for entering into contracts with managed care organizations at every level. Because accreditation is expensive and time consuming, not all providers choose to undergo the process. All of Apria s branch locations are accredited by or in the process of receiving accreditation from JCAHO.

***Essential Care Model.*** Apria has developed the Essential Care Model, a proprietary model that defines the services, supplies and products delivered in conjunction with prescribed homecare equipment and therapies. The Essential Care Model is used to establish consistent and clear

expectations for referral sources, payors and patients.

***Physician Relations.*** Apria s physician relations group places phone calls to physician offices in an effort to educate them about homecare and to stimulate interest in and awareness of Apria and its products and services. Physician relations representatives work closely with sales professionals throughout the country to identify, develop and maintain quality relationships.

***Patient Satisfaction and Complaint Resolution Process.*** Apria has a centralized patient satisfaction survey function that periodically conducts targeted member satisfaction studies for key managed care organizations as specified by the various contractual arrangements. The same centralized group manages a complaint resolution process through which service improvements are identified and implemented at the field level. The company believes that both centralized processes afford it visibility to centralized performance improvement data and trends that enable it to amend policies and procedures as necessary to meet the needs of patients and referral sources.

***Apria Great Escapes® Travel Program.*** Apria s 500-branch network facilitates travel for patients who require oxygen, home infusion or other products, services and therapies. Apria coordinates equipment and service needs for thousands of traveling patients annually, which enhances their mobility and quality of life.

**Sales**

Apria employs approximately 600 sales professionals whose primary responsibility is to generate new referrals and to maintain existing relationships for all of its service lines by targeting key referral sources. Key customers include physicians and their staffs, hospital-based healthcare professionals and managed care organizations, among others. Apria provides its sales professionals with the necessary clinical and technical training to represent Apria s major service offerings of home respiratory therapy, home infusion therapy and home medical equipment. As larger segments of the marketplace become involved with managed care, specially trained members of Apria s sales force provide the company with a competitive advantage based on their working knowledge of pricing, contracting and negotiating, and specialty-care management programs.

An integral component of Apria s overall sales strategy is to increase volume through managed care referral sources and traditional physician referral channels. Specific growth initiatives designed to increase customer awareness of Apria s clinical and operational programs are in place with the goal of securing a greater share of the traditional market. The ultimate decision makers for healthcare services vary greatly, from closed model managed care organizations to preferred provider networks, which are controlled by more traditional means. Apria s selling structure and strategies are designed to adapt to changing market factors and will continue to adjust as further changes in the industry occur. Managed care organizations continue to represent a significant portion of Apria s business in several of its primary metropolitan markets. No single account, however, represented more than 9% of Apria s total net revenues for 2005. Among its more significant managed care agreements during 2005 were Aetna Health Management, Kaiser Foundation Health Plan and United HealthCare Services. The company recently signed a new three-year contract with CIGNA Health Corporation, effective February 2006. Apria also offers discount agreements and various fee-for-service arrangements to hospitals or hospital systems whose patients have home healthcare needs. See Risk Factors Pricing Pressures and Management s Discussion and Analysis of Financial Condition and Results of Operations.

**Competition**

The segment of the healthcare market in which Apria operates is highly competitive. In each of its service lines there are a limited number of national providers and numerous regional and local providers. The competitive factors most important in the regional and local markets are:

- reputation with referral sources, including local physicians and hospital-based professionals;
- accessibility and responsiveness;
- price of services;
- overall ease of doing business;
- quality of patient care and associated services; and
- range of home healthcare services and products.

In addition to the foregoing, the most important competitive factors in the larger, national markets are:

- ability to service a wide geographic area;
- ability to develop and maintain contractual relationships with managed care organizations;
- access to capital;
- information systems capabilities; and
- accreditation by the JCAHO or a similar accrediting body.

Apria believes that it competes effectively in each of its service lines with respect to all of the above factors and that it has an established record as a quality provider of home respiratory therapy, home medical equipment and home infusion therapy, as reflected by JCAHO accreditation of Apria s branches.

In each of Apria s service lines there are a number of national providers and numerous regional and local providers. Among the national providers with which Apria directly competes are, American HomePatient, Coram Healthcare, Critical Care Systems, Lincare Holdings, Option Care and Rotech Healthcare. Other types of healthcare providers, including industrial gas manufacturers, individual hospitals and hospital systems, home health agencies and health maintenance organizations have entered, and may continue to enter, the market to compete with Apria s various service lines. Depending on their business strategies and financial position, it is possible that Apria s competitors may have access to significantly greater financial and marketing resources than Apria. This may increase pricing pressure and limit Apria s ability to maintain or increase its market share. See Risk Factors Pricing Pressures.

**Government Regulation**

Apria is subject to extensive government regulation, including numerous laws directed at preventing fraud and abuse and laws regulating reimbursement under various government programs, as more fully described below. Apria maintains several programs designed to minimize the likelihood that it would engage in conduct or enter into contracts in violation of the fraud and abuse laws. Contracts subject to these laws are reviewed and approved by corporate contract services and/or legal department personnel. Apria also maintains various educational and audit programs designed to keep its managers updated and informed on developments with respect to the fraud and abuse laws and to reinforce to all employees the company s policy of strict compliance in this area. While Apria believes its discount agreements, billing contracts and various fee-for-service arrangements with other healthcare providers comply with applicable laws and regulations, Apria cannot provide any assurance that current or future administrative or judicial interpretations of existing laws or legislative enactment of new laws will not have a material adverse effect on Apria s business. See Risk Factors Government Regulation; Healthcare Reform.

***Medicare and Medicaid Reimbursement.*** In 2005, approximately 39% of Apria s revenues were reimbursed under arrangements with Medicare and Medicaid. No other third-party payor represents more than 9% of the company s revenues. The majority of the company s revenues are derived from fees charged for patient care under fee-for-service arrangements. Revenues derived from capitation arrangements represent less than 10% of total net revenues for all periods presented.

*Medicare Reimbursement*. There are a number of provisions contained within recent legislation or proposed legislation that affect or may affect Medicare reimbursement policies for items and services provided by Apria. Such provisions are outlined below in the chronological order of the associated legislation.

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Still pending from the Balanced Budget Act of 1997 is the streamlined authority granted to the U.S. Department of Health and Human Services, or HHS, to increase or reduce the reimbursement for home medical equipment, including oxygen, by up to 15% each year under an inherent reasonableness authority. The Centers for Medicare and Medicaid Services, or CMS, issued a rule that established a process by which such adjustments may be made. The rule applies to all Medicare Part B services except those paid under a physician fee schedule, a prospective payment system, or a competitive bidding program. As of this date, neither CMS nor the durable medical equipment regional carriers have used the expedited authority.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003, also referred to as the Medicare Modernization Act, became law. The provisions contained therein which are significant to Apria are as follows:

A freeze on annual payment increases for durable medical equipment The freeze commenced in 2004 and will continue through 2008.

Reimbursement reductions for five durable medical equipment categories, including oxygen Reimbursement for most of these categories is based on the median price paid for such items on behalf of beneficiaries of federal employee health benefit plans, or FEHBP. The new fee schedules for most products went into effect January 1, 2005. The revised pricing for oxygen and oxygen equipment was implemented on April 8, 2005. Any 2005 claims for oxygen and oxygen equipment that had been submitted prior to the implementation of the new fee schedule were paid based on 2004 pricing schedules and were not retroactively adjusted.

Reimbursement reduction for inhalation drugs The previous reimbursement rate of 95% of the average wholesale price was reduced to 80% of the average wholesale price, effective January 1, 2004. Beginning in January 2005, reimbursement for these drugs was further reduced through a shift to the manufacturer-reported average sales price (subject to adjustment each quarter) plus 6%, plus a separate dispensing fee per patient episode. The dispensing fees for 2005 were $57.00 for a 30-day supply of medications and $80.00 for a 90-day supply. In its final 2006 physician fee schedule released on November 2, 2005, CMS established an initial dispensing fee of $57.00 for a 30-day supply for a new patient, and $33.00 for each 30-day supply thereafter. The 90-day dispensing fee has been lowered to $66.00.

Establishment of a competitive bidding program for Part B Such a program would require that suppliers wishing to provide certain items to beneficiaries submit bids to Medicare. The program, for as yet unspecified durable medical equipment items and services, is to be phased in as follows: (i) 10 of the largest metropolitan statistical areas in 2007; (ii) 80 of the largest metropolitan statistical areas in 2009; and (iii) additional areas after 2009. The legislation contains special provisions for rural areas. In September 2005, CMS issued its proposed quality standards for the program, to which Apria provided written comments. The final standards are expected to be published by CMS later in 2006.

Incentives for expansion of Medicare Part C The Medicare Modernization Act includes financial incentives for managed care plans to expand their provision of Medicare Advantage plans in 2006 in a stated effort to attract more Medicare beneficiaries to managed care models. The company maintains contracts to provide respiratory, infusion and medical equipment and related services to a significant number of managed care plans nationwide, and believes that the Medicare Advantage expansion represents a growth opportunity starting in 2006.

Reimbursement for home infusion therapy under Medicare Part D Currently, a limited number of infusion therapies, supplies and equipment are covered by Medicare Part B. The Medicare Modernization Act provides expanded coverage for the drugs only, but excludes coverage for the supplies and clinical services needed to safely and effectively provide home infusion therapy services to patients in the home. In the fourth quarter of 2005, the Company contracted with a limited number of Medicare Part D prescription drug plans in order to provide continuity of care for existing Medicare/Medicaid dual eligible patients in 2006. Due to nationwide Part D implementation issues experienced by home infusion providers in early 2006, the industry is continuing to work with CMS to rectify the coverage and payment policies that are causing implementation challenges.

Revenue reductions resulting from the provisions of the Medicare Modernization Act are estimated by Apria management as follows: The revision to inhalation drug reimbursement in 2004 resulted in a revenue reduction of approximately $15 million from 2003 levels. In 2005, pretax income was reduced from 2004 levels by nearly $34 million as a result of the lower Medicare pricing implemented in 2005 and related product pricing increases imposed by drug manufacturers. In 2006, the revision to the dispensing fee is estimated to reduce revenues by approximately $9 million. The impact of the competitive bidding program and the Medicare Part C and D programs cannot be estimated at this time.

The Deficit Reduction Act of 2005 was signed into law by the President in February 2006. Provisions that will impact reimbursement to Apria are summarized as follows:

In 2007, durable medical equipment currently categorized in the rent to cap category by CMS, such as hospital beds, wheelchairs, nebulizers, patient lifts and continuous positive airway pressure devices, will be considered purchased outright at the end of the rental period and the ownership of such devices will transfer directly to the patients. The rental period, which had been 15 months with an option for the patients to purchase the equipment, will be reduced to 13 months. The new 13-month rental period began on January 1, 2006, and therefore the first month in which the new policy will impact the company's revenue is February 2007. In addition, the bi-annual service and maintenance fee that had been paid to suppliers after the rental period ended, will be eliminated. Suppliers will have the option of billing Medicare for any repairs and maintenance performed on the patient-owned equipment. The act authorizes the Secretary of HHS to establish service and/or maintenance fees that at this time cannot be estimated or assured. It is, however, unlikely that Apria will continue in the repair and maintenance business.

Reimbursement for oxygen will convert from an ongoing rental method to a rent to purchase. The Act mandates that oxygen equipment reimbursement will be limited to 36 months, after which time the ownership of the equipment will transfer to the patient, who will assume all responsibility for identifying when repairs or preventive maintenance are needed. Providers would continue to be reimbursed for delivering portable oxygen to those patients who require it. The Act applies to patients who were on service with suppliers from January 1, 2006 forward. Accordingly, the first month in which the new policy will impact the company is January 2009. The act authorizes the Secretary of HHS to establish service and/or maintenance fees that at this time cannot be estimated or assured. Due to the bundled nature of the existing payment method, which includes the reimbursement for contents, all applicable clinical, delivery, after-hours, billing/collection and other patient support services, the industry will work with CMS and the Secretary to establish fair and equitable fee schedules for such non-equipment services. The net impact of the changes cannot be estimated at this time.

The President s current budget proposal contains a provision to further reduce the monthly rental period for oxygen from the now-mandated 36 months to 13 months. No further information is available on the proposal and it is uncertain whether this provision will remain in the budget that is ultimately approved by Congress.

*Medicaid Reimbursement*. In 2001, some states began adopting alternative pricing methodologies for certain drugs and biologicals under the Medicaid program. In at least 22 states, the changes reduced the level of reimbursement received by Apria without a corresponding offset or increase to compensate for the service costs incurred. In several of those states, Apria elected to stop accepting new Medicaid patient referrals for the affected drugs and biologicals. Apria will continue, however, to provide services to patients already on service, and for those who receive other Medicaid-covered respiratory, home medical equipment or infusion therapies, if the reimbursement levels for those services remain

adequate. Further, in 2005, some states implemented other payment policy changes or changed coverage criteria for medical equipment, enteral and infusion therapy altogether. Currently, other states are considering reductions in Medicaid reimbursement as they work through their respective state s budget process. Apria management cannot predict the outcome of such budget negotiations and whether other states will consider reductions as well. See Risk Factors Medicare/Medicaid Reimbursement Rates.

*Claims Audits and Processing*. Durable medical equipment regional carriers ( DMERCs ) are private organizations that contract to serve as the federal government s agents for the processing of claims for items and services provided under Part B of the Medicare program. These carriers and Medicaid agencies also periodically conduct pre-payment and post-payment reviews and other audits of claims submitted. Medicare and Medicaid agents are under increasing pressure to scrutinize healthcare claims more closely. In addition, the homecare industry is generally characterized by long collection cycles for accounts receivable due to complex and time-consuming requirements for obtaining reimbursement from private and governmental third-party payors. Such long collection cycles or reviews and/or similar audits or investigations of Apria s claims and related documentation could increase the possibility of denials of claims for payment submitted by Apria. Further, the government could demand significant refunds or recoupments of amounts paid by the government for claims which, upon subsequent investigation, are determined by the government to be inadequately supported by the required documentation.

Section 1874A of the Social Security Act, as added by the Medicare Modernization Act, requires CMS to implement Medicare contracting reform by 2011. On January 6, 2006, CMS announced the designation of four specialty contractors, durable medical equipment Medicare administrative contractors ( DME MACs ), which soon will be responsible for handling the administration of Medicare claims from suppliers of durable medical equipment, orthotics, and prosthetics ( DMEPOS ). Thus, all applicable claims will be handled by these new entities. The new DME MACs will replace the existing DMERCs, effective July 1, 2006. Because the full transition to the DME MACs from the DMERCs will not occur until that date, it is difficult to speculate precisely how this transformation will affect DMEPOS suppliers. The company cannot predict or estimate the potential impact of the change on its accounts receivable performance at this time. See Risk Factors Medicare/Medicaid Reimbursement Rates.

***HIPAA***. The Health Insurance Portability and Accountability Act of 1996, or HIPAA, is comprised of a number of components. Pursuant to the administrative simplification section of HIPAA, HHS has issued multiple regulations, each with its own compliance date. For those regulations with a compliance date that has already passed, Apria was materially compliant by the date required. Remaining regulation under HIPAA that may have a material effect on Apria govern the following:

- standards for a unique national health identifier for healthcare providers for use in connection with standard transactions compliance date: May 23, 2007 Apria expects to be materially compliant with these regulations by the compliance date; and
- the first installment of an interim enforcement rule, that when issued in full, will address both substantive and procedural requirements for the imposition of civil monetary penalties.

Apria faces potential criminal or civil sanctions if it does not comply with existing or new laws and regulations related to patient health information, use of standard transaction and code sets and use of standard identifiers. New health information standards, whether implemented pursuant to HIPAA or otherwise, could have a significant effect on the manner in which Apria handles healthcare related data and communicates with payors.

***Anti-Kickback Statute.*** As a provider of services under the Medicare and Medicaid programs, Apria is subject to the Medicare and Medicaid fraud and abuse laws, commonly known as the anti-kickback statute. At the federal level, the anti-kickback statute prohibits any bribe, kickback or rebate in return for the referral of patients, products or services covered by federal healthcare programs. Federal healthcare programs have been defined to include plans and programs that provide health benefits funded by the United States Government, including Medicare, Medicaid and TRICARE (formerly known as the Civilian Health and Medical Program of the Uniformed Services), among others. Violations of the anti-kickback statute may result in civil and criminal penalties and exclusion from participation in federal healthcare programs.

Additionally, a number of states in which Apria operates have laws that prohibit certain direct or indirect payments (similar to the anti-kickback statute) or fee-splitting arrangements between healthcare providers, if such arrangements are designed to induce or encourage the referral of patients to a particular provider. Possible sanctions for violations of these restrictions include exclusion from state-funded healthcare programs, loss of licensure and civil and criminal penalties. Such statutes vary from state to state, are often vague and have seldom been interpreted by courts or regulatory agencies. See Risk Factors Government Regulation; Healthcare Reform.

***Physician Self-Referrals.*** Certain provisions of the Omnibus Budget Reconciliation Act of 1993, commonly known as Stark II, prohibit health service providers such as Apria, subject to certain exceptions, from submitting claims to the Medicare and Medicaid programs for designated health services if Apria has a financial relationship with the physician making the referral for such services or with a member of such physician s immediate family. The term designated health services includes several services commonly performed or supplied by Apria, including durable medical equipment and home health services. In addition, financial relationship is broadly defined to include any ownership or investment interest or compensation arrangement pursuant to which a physician receives remuneration from the provider at issue. Violations of Stark II may result in loss of Medicare and Medicaid reimbursement, civil penalties and exclusion from participation in the Medicare and

Medicaid programs. In addition, a number of the states in which Apria operates have similar prohibitions on physician self-referrals. Finally, recent enforcement activity and resulting case law developments have increased the legal risks of physician compensation arrangements that do not satisfy the terms of an exception to Stark II, especially in the area of joint venture arrangements with physicians. See Business Risk Factors Government Regulation; Healthcare Reform.

***False Claims.*** The False Claims Act imposes civil and criminal liability on individuals or entities that submit false or fraudulent claims for payment to the government. Violations of the False Claims Act may result in treble damages, civil monetary penalties and exclusion from the Medicare and Medicaid programs.

The False Claims Act also allows a private individual to bring a *qui tam* suit on behalf of the government against a healthcare provider for violations of the False Claims Act. A *qui tam* suit may be brought by, with only a few exceptions, any private citizen who has material information of a false claim that has not yet been previously disclosed. Even if disclosed, the original source of the information leading to the public disclosure may still pursue such a suit. Although a corporate insider is often the plaintiff in such actions, an increasing number of outsiders are pursuing such suits.

In a *qui tam* suit, the private plaintiff is responsible for initiating a lawsuit that may eventually lead to the government recovering money of which it was defrauded. After the private plaintiff has initiated the lawsuit, the government must decide whether to intervene in the lawsuit and become the primary prosecutor. In the event the government declines to join the lawsuit, the private plaintiff may choose to pursue the case alone, in which case the private plaintiff s counsel will have primary control over the prosecution (although the government must be kept apprised of the progress of the lawsuit and will still receive at least 70% of any recovered amounts). In return for bringing the suit on the government s behalf, the statute provides that the private plaintiff is entitled to receive up to 30% of the recovered amount from the litigation proceeds if the litigation is successful. Recently, the number of *qui tam* suits brought against healthcare providers has increased dramatically. In addition, a number of states have enacted laws modeled after the False Claims Act that allow those states to recover money which was fraudulently obtained by a healthcare provider from the state (e.g., Medicaid funds provided by the state). See Risk Factors Government Regulation; Healthcare Reform.

***Other Fraud and Abuse Laws.*** HIPAA created, in part, two new federal crimes: Health Care Fraud and False Statements Relating to Health Care Matters. The Health Care Fraud statute prohibits executing a knowing and willful scheme or artifice to defraud any healthcare benefit program. A violation of this statute is a felony and may result in fines and/or imprisonment. The False Statements statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact by any trick, scheme or device or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services. A violation of this statute is a felony and may result in fines and/or imprisonment.

In recent years, the federal government has made a policy decision to significantly increase the financial resources allocated to enforcing the healthcare fraud and abuse laws. In addition, private insurers and various state enforcement agencies have increased their level of scrutiny of healthcare claims in an effort to identify and prosecute fraudulent and abusive practices in the healthcare area. See Risk Factors Government Regulation; Healthcare Reform.

***Healthcare Reform Legislation.*** Economic, political and regulatory influences are causing fundamental changes in the healthcare industry in the United States. Various healthcare reform proposals are formulated and proposed by the legislative and administrative branches of the federal government on a regular basis. In addition, some of the states in which Apria operates periodically consider various healthcare reform proposals. Apria anticipates that federal and state governments will continue to review and assess alternative healthcare delivery systems and payment methodologies and public debate of these issues will continue in the future. Due to uncertainties regarding the ultimate features of reform initiatives and their enactment and implementation, Apria cannot predict which, if any, of such reform proposals will be adopted, or when they may be adopted, or that any such reforms will not have a material adverse effect on Apria s business and results of operations.

Healthcare is an area of extensive and dynamic regulatory change. Changes in the law or new interpretations of existing laws can have a dramatic effect on permissible activities, the relative costs associated with doing business in the health care industry and the amount of reimbursement by governmental and other third-party payors. Recommendations for changes may result from an ongoing study of patient access by the General Accounting Office and from the potential findings of the National Bipartisan Commission on the Future of Medicare. See Risk Factors Government Regulation; Healthcare Reform.

**Employees**

As of January 31, 2006, Apria had 11,136 employees, of which 9,698 were full-time and 1,438 were part-time. None of the company s employees is currently represented by a labor union or other labor organization.

**Website Access to Reports**

Apria s Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments thereto and other filings are made available on the company s website as soon as reasonably practicable after such reports are filed with or furnished to the Securities and Exchange Commission. Apria s Code of Ethical Business Conduct is also available on the company s website. In the event Apria makes any amendment to, or grants any waiver from, a provision of the Code of Ethical Business Conduct that applies to the principal executive officer, principal financial officer or principal accounting officer that requires disclosure under applicable Securities and Exchange Commission rules, Apria will disclose such amendment or waiver and the reasons therefor on its website. Apria s website can be found at **www.apria.com**.

**Executive Officers of the Registrant**

Set forth below are the names, ages, titles with Apria and past and present positions of the persons serving as Apria s executive officers as of March 6, 2006:

| Name and Age | Office and Experience |
|---|---|
| Lawrence M. Higby, 60 | Chief Executive Officer and Director. Mr. Higby was appointed Chief Executive Officer and Director in February 2002. Mr. Higby also served as Apria s Chief Executive Officer on an interim basis from January through May 1998. He joined Apria in November 1997 as President and Chief Operating Officer. Prior to joining Apria, Mr. Higby served as President and Chief Operating Officer of Unocal s 76 Products Company and Group Vice President of Unocal Corporation from 1994 to 1997. From 1986 to 1994, Mr. Higby held various positions with the Times Mirror Company, including Executive Vice President, Marketing of the Los Angeles Times and Chairman of the Orange County Edition. In 1986, Mr. Higby served as President and Chief Operating Officer of America s Pharmacy, Inc., a division of Caremark, Inc. |
| Lawrence A. Mastrovich, 44 | President and Chief Operating Officer. Mr. Mastrovich joined Apria as Chief Operating Officer in April 2002 and was promoted to President in August 2004. From August 2001 to April 2002, Mr. Mastrovich served as President and Chief Operating Officer of TechRx, a pharmacy technology company. From April 2001 to August 2001, Mr. Mastrovich served as Apria s Executive Vice President, Sales. From October 1998 to April 2001, Mr. Mastrovich served as Apria s Executive Vice President, Revenue Management. From December 1997 to October 1998, Mr. Mastrovich served as Division Vice President, Operations for Apria s Northeast Division. Prior to that time, Mr. Mastrovich had served as a Regional Vice President for Apria and its predecessor, Homedco, since 1994 and in various other capacities from 1987 to 1994. |
| Amin I. Khalifa, 52 | Executive Vice President and Chief Financial Officer. Mr. Khalifa joined Apria as Executive Vice President and Chief Financial Officer in October 2003. From June 1999 to September 2003, Mr. Khalifa served as Vice President and Chief Financial Officer of Beckman Coulter, Inc., a manufacturer of diagnostic laboratory equipment and instruments. From October 1996 to June 1999, Mr. Khalifa served as the Chief Financial Officer of the Agricultural Sector of Monsanto Company, a life sciences company. From 1994 to October 1996, Mr. Khalifa served as Senior Vice President, Chief Financial Officer for Aetna Health Plans and as Senior Vice President, Strategy and Investor Relations for Aetna, Inc. |
| W. Jeffrey Ingram, 38 | Executive Vice President, Sales. Mr. Ingram was promoted to Executive Vice President, Sales in December of 2005. From January 2005 to November 2005, Mr. Ingram served as Senior Vice President, National Accounts. From March 2003 to January 2005, Mr. Ingram served as Division Vice President, Sales for Apria s Southeast Division. From May 2001 to February 2003, Mr. Ingram served as Region Vice President, Sales for Apria s Midsouth Region. Prior to that time, Mr. Ingram had served in various other sales positions with Apria since January 1994. |
| Daniel J. Starck, 39 | Executive Vice President, Customer Services. Mr. Starck was promoted to Executive Vice President, Customer Services in November of 2005. From July 2003 to November 2005, Mr. Starck served as Executive Vice President, Business Operations. From April 2001 to July 2003, Mr. Starck served as Division Vice President, Operations for Apria s Pacific Division. From January 1998 to April 2001, Mr. Starck served as Regional Vice President, Operations for Apria s Northern California Region. Prior to that time, Mr. Starck had served in various other operations positions with |

| Name and Age | Office and Experience |
|---|---|
| | Apria since March 1992. |

**ITEM 1A. RISK FACTORS**

Apria has identified the following important factors that could cause actual results to differ materially from those projected in any forward-looking statements the company may make from time to time.

**Collectibility of Accounts Receivable Apria s failure to maintain its controls and processes over billing and collecting or the deterioration of the financial condition of its payors could have a significant negative impact on its results of operations and financial condition.**

The collection of accounts receivable is one of Apria s most significant challenges and requires constant focus and involvement by management and ongoing enhancements to information systems and billing center operating procedures. Further, some of Apria s payors and/or patients may experience financial difficulties, or may otherwise not pay accounts receivable when due, resulting in increased write-offs. There can be no assurance that Apria will be able to maintain its controls and processes over billing or its current levels of collectibility and days sales outstanding in future periods. If Apria is unable to properly bill and collect its accounts receivable, its results will be adversely affected.

**Medicare/Medicaid Reimbursement Rates Continued reductions in Medicare and Medicaid reimbursement rates could have a material adverse effect on Apria s results of operations and financial condition.**

*Medicare*. There are a number of provisions contained within recent legislation and proposed legislation that affect or may affect reimbursement policies for items and services provided by Apria. Certain of such provisions reduced 2004 net revenues by approximately $15 million and 2005 net revenues by an incremental $27 million. Other reimbursement changes in the legislation are still outstanding and will further reduce Apria s net revenues. See Business Government Regulation Medicare and Medicaid Reimbursement.

*Medicaid*. In 2001, some states began adopting alternative pricing methodologies for certain drugs and biologicals under the Medicaid program. In a number of states, these changes have reduced the level of reimbursement received by Apria without a corresponding offset or increase to compensate for the service costs incurred. In several of those states, Apria elected to stop accepting new Medicaid patient referrals for the affected drugs and biologicals. Further, some states are considering other reductions in Medicaid reimbursement as they work through their respective state s budget process. See Business Government Regulation Medicare and Medicaid Reimbursement.

Medicare and Medicaid payments accounted for approximately 32% and 7% of Apria s 2005 net revenues, respectively. Apria cannot be certain of the ultimate impact of all legislated and contemplated changes or provide assurance to its investors that additional reimbursement reductions will not be made.

**Operating Systems and Controls Apria s failure to successfully implement computer and other system modifications designed to maximize productivity could ultimately have a significant negative impact on its results of operations and financial condition.**

Apria s management has identified a number of areas throughout its operations where it intends to modify the current processes or systems in order to attain a higher level of productivity. The ultimate cost savings expected from the successful design and implementation of such initiatives will be necessary to help offset the impact of Medicare reimbursement reductions and continued downward pressure on pricing. Apria s failure to successfully implement its planned system modifications and other productivity improvements could have a significant impact on its operations and financial condition. Further, the implementation of these system changes could have a disruptive effect on related transaction processing and operations.

**Government Regulation; Healthcare Reform Non-compliance with laws and regulations applicable to Apria s business and future changes in those laws and regulations could have a material adverse effect on Apria.**

Apria is subject to stringent laws and regulations at both the federal and state levels, requiring compliance with burdensome and complex billing, substantiation and record-keeping requirements. Financial relationships between Apria and physicians and other referral sources are also subject to strict limitations. In addition, strict licensing and safety requirements apply to the provision of services, pharmaceuticals and equipment. Violations of these laws and regulations could subject Apria to severe fines, facility shutdowns and possible exclusion from participation in federal healthcare programs such as Medicare and Medicaid. Government officials and the public will continue to debate healthcare reform. Changes in healthcare law, new interpretations of existing laws, or changes in payment methodology may have a dramatic effect on Apria s business and results of operations.

**Pricing Pressures Apria believes that continued pressure to reduce healthcare costs could have a material adverse effect on the company.**

The current market continues to exert pressure on healthcare companies to reduce healthcare costs, resulting in reduced margins for home healthcare providers such as Apria. Larger group purchasing organizations and supplier groups exert additional pricing pressure on home healthcare providers. These include managed care organizations, which control an increasing portion of the healthcare economy. Apria has a number of contractual arrangements with managed care organizations and other parties, although no individual arrangement accounted for more than 9% of Apria s net revenues in 2005.

The segment of the healthcare market in which Apria operates is highly competitive. In each of its service lines, there are a number of national providers and numerous regional and local providers. Other types of healthcare providers, including industrial gas manufacturers, individual hospitals and hospital systems, home health agencies and health maintenance organizations have entered, and may continue to enter the market to compete with Apria s various service lines. Some of these competitors have access to significantly greater financial and marketing resources than Apria. This may increase pricing pressure and limit Apria s ability to maintain or increase its market share.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

*None.*

**ITEM 2. PROPERTIES**

Apria leases its headquarters, located in Lake Forest, California, which consist of approximately 100,000 square feet of office space. The lease expires in 2011.

Apria has approximately 500 branch facilities that are organized into 15 regions. The regional facilities usually house a branch and various regional support functions such as warehousing, repair, billing and infusion pharmacy. These facilities are typically located in light industrial areas and generally range from 30,000 to 150,000 square feet. The typical branch facility, other than those that share a building with a region, is a combination warehouse and office and can range from 1,000 to 50,000 square feet. Apria leases substantially all of its facilities with lease terms of ten years or less.

**ITEM 3. LEGAL PROCEEDINGS**

Apria is engaged in the defense of certain claims and lawsuits arising out of the ordinary course and conduct of its business, the outcomes of which are not determinable at this time. Apria has insurance policies covering such potential losses where such coverage is cost effective. In the opinion of management, any liability that might be incurred by Apria upon the resolution of these claims and lawsuits will not, in the aggregate, have a material adverse effect on Apria s results of operations or financial condition.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of Apria s stockholders during the fourth quarter of the fiscal year covered by this report.

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**PART II**

**ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

**Market for the Registrant s Common Equity**

Apria s common stock is traded on the New York Stock Exchange under the symbol AHG. The table below sets forth, for the calendar periods indicated, the high and low sales prices per share of Apria common stock:

| | High | Low |
|---|---|---|
| Year ended December 31, 2005 | | |
| First quarter | $33.56 | $29.78 |
| Second quarter | 36.75 | 29.05 |
| Third quarter | 35.55 | 31.56 |
| Fourth quarter | 32.84 | 20.51 |

| | High | Low |
|---|---|---|
| Year ended December 31, 2004 | | |
| First quarter | $32.00 | $28.00 |
| Second quarter | 30.74 | 27.44 |
| Third quarter | 32.00 | 26.25 |
| Fourth quarter | 34.95 | 26.97 |

As of March 6, 2006, there were 332 holders of record of Apria common stock. Apria has not paid any dividends since its inception and does not intend to pay any dividends on its common stock in the foreseeable future.

**Equity Compensation Plans**

The following table sets forth information as of December 31, 2005 for Apria s equity compensation plans:

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options and Awards | Weighted Average Exercise Price of Outstanding Options and Awards | Number of Securities Remaining Available for Future Issuance |
|---|---|---|---|
| Equity compensation plans approved by stockholders | 4,394,688 | $ 21.80 | 4,078,050 |
| Equity compensation plans not approved by stockholders | 492,401 | $ 22.16 | - |
| Totals | 4,887,089 | $ 21.84 | 4,078,050 |

Apria s 1998 Nonqualified Stock Incentive Plan is the only equity compensation plan that has not been approved by stockholders. The plan was approved by the Board of Directors on December 15, 1998 and became effective as of that date. Upon stockholder approval of the 2003 Performance Incentive Plan, the ability to grant additional awards under the 1998 Plan was terminated.

**Issuer Purchases of Equity Securities**

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| October 1 through October 31, 2005 | - | $ - | - | $250,000,000 |
| November 1 through November 30, 2005 | 7,337,526 | $ 23.85 | 7,337,526 | $75,000,000 |
| December 1 through December 31, 2005 | - | $ - | - | $75,000,000 |
| Total | 7,337,526 | $ 23.85 | 7,337,526 | |

In October 2005, Apria s Board of Directors authorized the company to repurchase up to $250,000,000 worth of its outstanding common stock.

On November 7, 2005, Apria purchased 7,337,526 shares of its common stock for $175,000,000 through an accelerated share repurchase program. Under the agreement, Apria s counterparty borrowed shares that were sold to Apria at an initial price of $23.83. The counterparty then repurchased shares over a period that began immediately after the sale of shares to Apria. The repurchase transaction was completed in February 2006. The agreement contained a provision that subjected Apria to a purchase price adjustment based on the volume weighted average price of the company s common stock over the period during which the counterparty purchased the shares. Such provision resulted in an additional

$242,000 due that Apria elected to settle in cash in February 2006. This amount was recorded as a liability at December 31, 2005, with a corresponding charge to interest expense reflecting the change in the fair value of the settlement contract.

Depending on market and other considerations, the company may exercise the remaining $75,000,000 of the Board authorization by repurchasing its common stock in open market or privately negotiated transactions over the next four fiscal quarters.

**ITEM 6. SELECTED FINANCIAL DATA**

The following table presents Apria s selected financial data for the five years ended December 31, 2005. The data set forth below have been derived from Apria s audited Consolidated Financial Statements and are qualified by reference to, and should be read in conjunction with, the Consolidated Financial Statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included in this report.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| ***(in thousands, except per share data)*** | **2005[1]** | **2004[2]** | **2003[3]** | **2002[4]** | **2001** |
| **Statements of Income Data:** | | | | | |
| Net revenues | $ 1,474,101 | $ 1,451,449 | $ 1,380,945 | $ 1,252,196 | $ 1,131,915 |
| Net income | | | | | |