APRIA HEALTHCARE GROUP INC
Form DEF 14A
March 28, 2006

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

(AMENDMENT NO.___)

Filed by the Registrant þ

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
þ Definitive Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

APRIA HEALTHCARE GROUP INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

þ Fee not required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
(1) Title of each class of securities to which transaction

applies:

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(2) Aggregate number of securities to which transaction applies:

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

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

APRIA HEALTHCARE GROUP INC.
26220 Enterprise Court
Lake Forest, California 92630
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TIME	8:00 A.M. local time on Friday, April 21, 2006
PLACE	Apria Healthcare Group Inc. Building 26210 Sawgrass Room 26220 Enterprise Court Lake Forest, California 92630
ITEMS OF BUSINESS	(1) To elect eight members of the Board of Directors, with such persons to hold office until the 2007 Annual Meeting of Stockholders or until their successors are elected and qualified. (2) To ratify the appointment of Deloitte & Touche LLP as the company s independent registered public accounting firm for the fiscal year ending December 31, 2006. (3)To transact such other business as may properly come before the Annual Meeting and at any adjournment thereof.
RECORD DATE	You can vote if you were a stockholder of record on March 10, 2006.
ANNUAL REPORT	Our 2005 Annual Report, which is not a part of the proxy soliciting material, is enclosed.
PROXY VOTING	Shares represented by properly executed proxies will be voted in accordance with the specifications therein. Shares represented by proxies which do not contain directions to the contrary will be voted FOR the election of the Directors named in the attached Proxy Statement and FOR the proposal to ratify the appointment of Deloitte & Touche LLP as the company s independent registered public accounting firm.
LIST OF STOCKHOLDERS	A complete list of stockholders entitled to vote at the Annual Meeting will be available for examination by any stockholder, for any purpose germane to the Annual Meeting, at the office of the Secretary of the company, at 26220 Enterprise Court, Lake Forest, California 92630-8405, during the ten-day period preceding the Annual Meeting.

Lake Forest, California
March 28, 2006

Robert S. Holcombe
Executive Vice President, General Counsel and Secretary

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Apria Healthcare Group Inc.
26220 Enterprise Court
Lake Forest, California
92630-8405

PROXY STATEMENT

SOLICITATION OF PROXIES

Solicitation by Board

The accompanying proxy is being solicited by the Board of Directors of Apria Healthcare Group Inc. for use at Apria s 2006 Annual Meeting of Stockholders to be held on April 21, 2006, at 8:00 A.M. local time, at Apria Healthcare Group Inc., Building 26210 Sawgrass Room, 26220 Enterprise Court, Lake Forest, California 92630, and at any adjournment thereof.

This Proxy Statement and the accompanying proxy are first being mailed to stockholders on or about March 28, 2006.

Expense of Solicitation

The expense of soliciting proxies will be borne by Apria. Proxies will be solicited principally through the use of the mail, but Directors, officers and regular employees may solicit proxies personally or by telephone or special letter without any additional compensation. Apria also will reimburse banks, brokerage houses and other custodians, nominees and fiduciaries for reasonable expenses in forwarding proxy materials to beneficial owners.

Your Vote is Important

No matter how many shares you owned on the record date, please indicate your voting instructions on the accompanying proxy card and sign, date and return it in the envelope provided, which is addressed for your convenience and needs no postage if mailed in the United States. In order to avoid the additional expense to the company of further solicitation, we ask for your cooperation in promptly mailing in your proxy card.

VOTING PROCEDURE AND TABULATION

Stockholders Entitled to Vote

Holders of Apria common stock at the close of business on March 10, 2006, the record date with respect to this solicitation, are entitled to notice of and to vote at the Annual Meeting. Each stockholder of record is entitled to one vote per share. As of the record date 42,370,229 shares of the company s common stock were outstanding (not including 16,965,185 treasury shares held by Apria). No shares of any other class of stock were outstanding.

Voting on Agenda Items/Right to Revoke Proxy

All shares represented by each properly executed unrevoked proxy received in time for the Annual Meeting will be voted in the manner specified therein. If you sign your proxy card but do not indicate contrary voting instructions, the shares represented by the proxy will be voted for each of the nominees and the proposal to ratify the appointment of Deloitte & Touche LLP as the company s independent registered accounting firm (See Election of Directors and Ratification of Appointment of Independent Accountants). An executed proxy may be revoked at any time before its exercise by filing with Apria s Secretary a written notice of revocation or a duly executed proxy bearing a later date, or by attending the Annual Meeting and voting in person. Attendance at the meeting will not, in and of itself, cause your previously granted proxy to be revoked, unless you revoke it in writing and deliver the revocation to the Inspector of Election present at the meeting.

Voting on Other Matters

If any other matters are properly presented at the Annual Meeting, the persons named on the proxy card will be entitled to vote on those matters for you. As of the date of mailing of this Proxy Statement, Apria was not aware of any other matters to be raised at the Annual Meeting.

Tabulation of Votes

Votes cast by proxy or in person at the Annual Meeting will be counted by the person appointed by Apria to act as Inspector of Election for the meeting.

Abstentions

The Inspector of Election will treat shares represented by proxies that reflect abstentions as shares that are present and entitled to vote for purposes of determining the presence of a quorum and for purposes of determining the outcome of any matter submitted to the stockholders for a vote. Therefore, an abstention has the effect of a negative vote because it is disregarded in the calculation of votes cast.

Broker Non-Votes

The Inspector of Election will treat shares referred to as broker non-votes (i.e., shares held by brokers or nominees over which the broker or nominee lacks discretionary power to vote and for which the broker or nominee has not received specific voting instructions from the beneficial owner) as shares that are present and entitled to vote for purposes of determining the presence of a quorum. However, for purposes of determining the outcome of any matter as to which the broker has indicated on the proxy that it does not have discretionary authority to vote, those shares will be treated as not present and not entitled to vote with respect to that matter (even though those shares are considered entitled to vote for quorum purposes and may be entitled to vote on other matters). Therefore broker non-votes will not affect the outcome of any matter voted on at the meeting.

SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT

The following table sets forth information as of March 10, 2006, with respect to the beneficial ownership of Apria s common stock by each person who is known by the company to beneficially own more than 5% of Apria s common stock, each Director of the company, all past and present executive officers listed in the summary compensation table and all current Directors and executive officers as a group. Except as otherwise indicated, beneficial ownership includes both voting and investment power with respect to the shares shown.

Security Ownership Table

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
FMR Corp. (1)	5,056,314	11.23
Massachusetts Financial Services Company (2)	4,152,758	9.22
Goldman Sachs Asset Management, L.P. (3)	3,388,614	7.53
Barclays Global Investors, N.A. (4)	2,777,011	6.17
Morgan Stanley (5)	2,492,701	5.54
Lawrence M. Higby (6)	1,272,386	2.83
Lawrence A. Mastrovich (7)	557,000	1.24
David L. Goldsmith (8)	426,652	*
Amin I. Khalifa (9)	217,125	*
Daniel J. Starck (10)	132,666	*
Richard H. Koppes (11)	110,000	*
Philip R. Lochner, Jr. (12)	109,000	*
W. Jeffrey Ingram (13)	60,000	*
Anthony S. Domenico (14)	60,000	*
I. T. Corley (15)	44,000	*
Vicente Anido, Jr. (16)	43,000	*
Terry P. Bayer	0	0

All current Directors and executive officers as a group (11 persons) (17)	2,971,829	6.60

* Less than 1%

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(1) According to Amendment No. 1 to Schedule 13G, filed as of February 14, 2006 with the Securities and Exchange Commission, FMR Corp., a parent holding company in accordance with 17 C.F.R. Section 240.13d-1(b)(ii)(G), has sole dispositive power as to 5,056,314 shares and sole voting power as to 376,550 shares. The mailing address for FMR Corp. is 82 Devonshire Street, Boston, MA 02109.

(2) According to a Schedule 13G, filed as of February 8, 2005 with the Securities and Exchange Commission, Massachusetts Financial Services Company, an investment advisor registered under Section 203 of the Investment Advisers Act of 1940, has sole dispositive power as to 4,152,758 shares and voting power as to 3,995,248 shares. The mailing address for Massachusetts Financial Services Company is 500 Boylston Street, Boston, MA 02116.

(3) According to a Schedule 13G, filed as of February 1, 2006 with the Securities and Exchange Commission, Goldman Sachs Asset Management, L.P., an investment advisor in accordance with Rule 13d-1(b) (1) (ii) (E) of the Securities Exchange Act of 1934, has sole dispositive power as to 3,388,614 shares and sole voting power as to 3,363,835 shares. The mailing address for Goldman Sachs Asset Management, L.P. is 32 Old Slip, New York, NY 10005.

(4) According to a Schedule 13G, filed as of February 8, 2002 with the Securities and Exchange Commission, Barclays Global Investors, N.A. (BGINA), a bank as defined in Section 3(a)(6) of the Securities Exchange Act of 1934, has sole dispositive power as to 2,429,477 shares and sole voting power as to 2,360,265 shares. In addition, BGINA s sister company, Barclays Global Investors, LTD (BGILTD) holds 4,230 of the shares directly and has sole dispositive and voting power as to those shares. The balance of the shares included in the Schedule is held by BGINA s subsidiary, Barclays Global Fund Advisors (BGF), which has sole voting and dispositive power as to 343,304 shares. The mailing address for BGINA, BGILTD and BGF is 45 Fremont Street, San Francisco, CA 94105.

(5) According to a Schedule 13G, dated February 15, 2006, filed with the Securities and Exchange Commission, Morgan Stanley, a parent holding company, in accordance with 17 C.F.R. Section 240.13-d(1)(b)(1)(ii)(G), has sole dispositive power as to 2,354,708 shares and sole voting power as to 2,354,708 shares. The balance of the shares is held beneficially by one of its business units. The mailing address for Morgan Stanley is 1585 Broadway, New York, NY 10036.

(6) Includes 1,238,786 shares subject to options and restricted stock purchase rights that are currently exercisable.

(7) Includes 557,000 shares subject to options and restricted stock purchase rights that are currently exercisable.

(8) Includes 307,986 shares held in a revocable family trust as to which Mr. Goldsmith has dispositive power, 5,000 shares of restricted stock which will vest on the date of Apria s 2006 Annual Meeting of Stockholders, and 113,666 shares subject to options that are currently exercisable.

(9) Includes 5,000 shares held in a shared trust with Mr. Khalifa s spouse and 212,125 shares subject to options and restricted stock purchase rights that are currently exercisable.

(10) Includes 132,666 shares subject to options and restricted stock purchase rights that are currently exercisable.

(11) Includes 3,000 shares of restricted stock which will vest on the date of Apria s 2006 Annual Meeting of Stockholders and 98,000 shares subject to options that are currently exercisable.

(12)

Includes 2,000 shares owned by Mr. Lochner s spouse, 3,000 shares of restricted stock which will vest on the date of Apria s 2006 Annual Meeting of Stockholders and 98,000 shares subject to options that are currently exercisable.

(13) Includes 65,000 shares subject to options that are currently exercisable.

(14) Includes 60,000 shares subject to options that are currently exercisable.

(15) Includes 8,000 shares held in a brokerage account jointly with Mr. Corley s spouse, 3,000 shares of restricted stock which will vest on the date of Apria s 2006 Annual Meeting of Stockholders and 33,000 shares subject to options that are currently exercisable.

(16) Includes 3,000 shares of restricted stock which will vest on the date of Apria s 2006 Annual Meeting of Stockholders and 33,000 shares subject to options that are currently exercisable.

(17) Includes 312,986 shares owned by certain trusts. Also includes 17,000 shares of restricted stock which will vest on the date of Apria s 2006 Annual Meeting of Stockholders and 2,576,243 shares subject to options that are currently exercisable.

INFORMATION REGARDING THE BOARD OF DIRECTORS

Composition of Board

Apria s Board of Directors consists of such number of Directors as may be determined by the Board of Directors from time to time. The Board of Directors currently consists of seven Directors who have been nominated for reelection and one additional nominee. All of the nominees have been nominated to serve as Directors for a term of one year or until the election and qualification of their successors.

Directors Fees

All Directors of Apria are reimbursed for their out-of-pocket expenses incurred in connection with attending Board and related committee meetings. The non-employee Directors also receive additional compensation in the form of cash payments, stock option grants and grants of restricted stock. During 2005, each non-employee Director received an annual retainer of $30,000 and meeting fees of $1,000 per Board or committee meeting attended at which action was taken. Each non-employee Director who chaired a committee of the Board also received an additional $10,000 annual retainer (for a total retainer of $40,000).

It is expected that the Board will continue Apria s practice of annual stock option grants and/or restricted stock grants to non-employee Directors who are elected or reelected, as the case may be, as Directors at the Annual Meeting. During 2005 each Director, other than the Chairman, received options to purchase 6,000 shares at an exercise price of $31.50 per share and 3,000 shares of restricted stock vesting approximately one year from the date of grant. The Chairman received options to purchase 10,000 shares and 5,000 shares of restricted stock, all of which were granted on the same terms as those granted to the other non-employee Directors. While it is generally expected that the 2006 grants will be comparable to the 2005 stock option and restricted stock grants to non-employee Directors discussed above, the grants are discretionary in nature and the Board has not yet established any specific future awards or award grant levels.

The Board has also implemented a deferred compensation plan that allows Directors to defer payment, until they no longer serve on the Board or some other specified date, of all or a portion of the cash compensation that they would otherwise have become entitled to receive.

Committees and Meetings of the Board of Directors

Standing committees of Apria s Board of Directors include a Corporate Governance and Nominating Committee, an Audit Committee, a Compliance Committee and a Compensation Committee. Each committee has adopted a written charter which is posted on Apria s website (www.apria.com) by following the links to About Apria, Investor Relations and Corporate Governance. All members of each committee are independent as independence is defined under the New York Stock Exchange Listing Standards. The Board of Directors held ten meetings during the 2005 fiscal year. All Directors attended at least 75% of the aggregate of all Board meetings and applicable committee meetings held during 2005. The company encourages Directors to attend the Annual Meeting of Stockholders and all Directors were in attendance at Apria s 2005 Annual Meeting, except Ms. Beverly Thomas who retired from the Board of Directors at such meeting.

Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee reviews and reports to the Board on a periodic basis with regard to matters of corporate governance, succession planning and the nomination and evaluation of Directors. The Committee also reviews and assesses the effectiveness of the Board s Guidelines on Corporate Governance and recommends to the Board proposed revisions thereto. Currently, the Corporate Governance and Nominating Committee consists of Messrs. Anido (Chairman) and Koppes.

As reflected in the Charter of the Corporate Governance and Nominating Committee, factors considered by the Committee in the appointment of Director nominees are those it may deem appropriate, consistent with the qualities listed in the Corporate Governance Guidelines, and may include judgment, skill, integrity, diversity, experience with businesses and organizations comparable to Apria, the interplay of the candidate s experience with the experience of other Board members and the extent to which the candidate would be a desirable addition to the Board or any of its committees. The Committee usually uses a search firm to identify potential nominees, but the Board and Committee also give consideration to individuals identified by stockholders, management and members of the Board. Apria s Corporate Governance Guidelines are included in this Proxy Statement and may also be found on Apria s website (www.apria.com) by following the links to About Apria, Investor Relations and Corporate Governance.

Apria has enacted a Policy Regarding Alternative Director Nominations by Stockholders (the Policy). The following summary of the Policy is qualified in its entirety by the full text of the Policy, which appears on the company s website (www.apria.com) by following the links to About Apria, Investor Relations and Corporate Governance. The Policy requires the inclusion in Apria s proxy materials of information concerning candidates for the Board of Directors, in addition to those recommended by the existing Board, and is intended to facilitate the ability of stockholders to choose freely among competing candidates who may be proposed by stockholders who have a significant, long-term interest in Apria s success.

The Policy allows one or more stockholders who own beneficially at least 5% of Apria s common stock as of the record date of the applicable Annual Meeting, and who have maintained that ownership level for at least two years, to submit nominations for the Board of Directors and to require the inclusion of information concerning their nominees in Apria s proxy materials. A maximum of two stockholder nominations are permitted for each individual Board seat.

Each eligible stockholder or group of stockholders may nominate up to two candidates per election. The stockholder(s) must specify which incumbent Director s seat is being challenged and must also submit a signed statement acknowledging that the nominee(s) will lawfully represent all of Apria s stockholders, that the nominee(s) will comply with all applicable policies and standards of conduct, and that the nominating stockholder(s) will satisfy the 5% beneficial ownership threshold as of the date of the applicable Annual Meeting as well.

The Corporate Governance and Nominating Committee of the Board of Directors has the power to adopt rules and procedures deemed appropriate to implement and interpret the Policy. The Corporate Governance and Nominating Committee will also consider whether to include any stockholder nominee as one of the company s slate of nominees.

No Director nominations by stockholders have been received to date.

The Corporate Governance and Nominating Committee met on four occasions during 2005.

Audit Committee. The Audit Committee is appointed by the Board of Directors to represent and assist the Board with oversight of, among other things, (1) the integrity of the financial statements and internal controls of the company, (2) the outside auditors independence and qualifications and (3) the performance of Apria s internal and external audit functions. The Committee currently consists of Messrs. Corley (Chairman), Goldsmith and Lochner. The Board of Directors has determined that each member serving on the Audit Committee is independent as independence is defined under the New York Stock Exchange Listing Standards and that two of the members qualify as an audit committee financial expert as that term is defined by the Securities and Exchange Commission in Item 401(h) of Regulation S-K. The Committee met on nine occasions during 2005. Those meetings included separate sessions with the company s independent auditors, the company s internal auditor and its general counsel, without other members of management present.

Compliance Committee. The Compliance Committee exercises oversight responsibility with respect to the company s regulatory compliance programs, monitors certain aspects of those programs and reports to the Board regarding the same. Currently, the Committee consists of Messrs. Koppes (Chairman), Corley and Goldsmith. The Committee met on four occasions during 2005. Two of those meetings included separate sessions with the company s compliance officer, without other members of management present.

Compensation Committee. The Compensation Committee conducts an annual performance review of Apria s senior management and establishes their salaries, bonuses and long-term incentive awards. Currently, the Compensation Committee consists of Messrs. Lochner (Chairman) and Anido. The Committee met on four occasions during 2005.

Director Independence

Apria s Corporate Governance Guidelines require that a substantial majority of the Board of Directors be comprised of independent Directors. For a Director to be considered independent under the listing standards of the New York Stock Exchange, the Board must affirmatively determine that a Director has no direct or indirect material relationship with Apria. Through Apria s Corporate Governance Guidelines, the Board has adopted the independence tests specified by the New York Stock Exchange in Rule 303A.02 of its Listed Company Manual as categorical standards to assist it in making determinations regarding independence. These independence tests are attached to this Proxy Statement as Exhibit A. The standards so adopted specify the criteria by which the independence of Apria s Directors will be determined, including any past employment or affiliation with Apria or Apria s independent registered public accounting firm by a Director or any member of the Director s immediate family. After considering written certifications received from each nominee to the Board of Directors regarding the absence of the relationships referenced in the standards, as well as the absence of certain other charitable, commercial and familial relationships which might affect their independence from the company, the Board has determined that Vicente Anido, Jr., Terry P. Bayer, I.T. Corley, David L. Goldsmith, Richard H. Koppes, Philip R. Lochner, Jr. and Mahvash Yazdi are each independent.

Stockholder Communications to the Board of Directors

Stockholders may send communications to Apria s Board of Directors through Apria s Investor Relations Department on Apria s website (www.apria.com) by following the links to About Apria, Investor Relations and Information Request or by e-mailing Investor_Relations@apria. com. Communications may also be sent by mail to Apria s Investor Relations Department or its Corporate Secretary at 26220 Enterprise Court, Lake Forest, California 92630-8405. Any communications should be addressed to the attention of the Board as a whole or to specific Board members.

Stockholders desiring to limit or direct their communications only to non-management Directors, or to the Board s Chairman in his capacity as Presiding Director at meetings of non-management Directors, should so indicate in the communication and direct the communication to the non-management Directors as a group or the Chairman of the Board.

GOVERNANCE OF THE COMPANY

Our Code of Ethical Business Conduct

Apria has adopted a Code of Ethical Business Conduct which applies to all of its employees, officers and Directors, including, but not limited to, the Chief Executive Officer, the Chief Financial Officer, the President and Chief Operating Officer and other senior financial officers. Should Apria grant any amendment to, or a waiver from, a provision of the Code that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, such amendment or waiver will be disclosed on Apria s website (www.apria.com). The current version of the Code may be found on Apria s website by following the links to About Apria, Investor Relations and Corporate Governance.

Our Corporate Governance Guidelines

Apria s Board of Directors has adopted the following Corporate Governance Guidelines:

Board Mission and Responsibilities

Mission Statement. The company s primary objective is to maximize stockholder value over the long term while adhering to the laws of the jurisdictions within which it operates and observing high ethical standards.

Corporate Authority and Responsibility. All corporate authority resides in the Board of Directors as fiduciaries on behalf of the stockholders. The Board delegates authority to management to pursue the company s mission. Management, not the Board, is responsible for managing the company. The Board retains responsibility to recommend candidates to the stockholders for election to the Board of Directors. The Board also retains responsibility, among other things, for selection and evaluation of the Chief Executive Officer, oversight of succession plans, determination of senior management compensation, approval of the annual budget, and review of systems, procedures and controls. The Board also advises management with respect to strategic plans.

Board Operations

Board Agenda. The Chairman of the Board in coordination with the Chief Executive Officer shall set the agenda for each Board meeting, taking into account suggestions from members of the Board.

Strategic Planning. The Board shall hold an annual strategic planning session. The timing and agenda for this meeting are to be suggested by the Chief Executive Officer.

Independent Advice. The Board or any committee may seek legal or other expert advice from a source independent of management. Generally, this would be with the knowledge of the Chief Executive Officer and the Chairman of the Board.

Access to Top Management. Board members are free to contact members of senior management and are encouraged to coordinate their contacts through the Chief Executive Officer. Additionally, regular attendance and participation in Board meetings by senior management is encouraged as appropriate.

Executive Meetings of Independent Directors. An executive meeting of independent Directors shall be held during each Board meeting. The Chairman shall lead these sessions.

Educational Programs. Within two years of first becoming a Director, each Director should attend, at the company s cost, an accredited one or two-day educational program for Directors. Following this initial education, each Director should attend one additional educational program in each five-year period of service on the company s Board.

Board Evaluation. The Corporate Governance and Nominating Committee shall be responsible for evaluating Directors as part of its process for recommending Director nominees to the Board. The Corporate Governance and Nominating Committee shall be responsible for coordinating an annual evaluation by the Directors of the Board s performance and procedures.

Written Guidelines and Policies. The Board shall maintain written corporate governance guidelines and operational policies which will be reviewed annually by the Corporate Governance and Nominating Committee.

Our Corporate Governance Guidelines (continued)

Board Structure

Positions of Chairman and Chief Executive Officer. The positions of Chairman and Chief Executive Officer shall be filled by separate persons and the Chairman shall be an Independent Director.

Board Composition. Independent Directors shall constitute a substantial majority of the Board.

Number of Directors. The Board shall assess its size from time to time. It is the Board s philosophy that smaller Boards are most effective.

Committees. The standing Board committees shall be the Audit Committee, the Compliance Committee, the Compensation Committee, and the Corporate Governance and Nominating Committee. All standing committees shall be made up of Independent Directors. Each standing committee shall maintain a written charter approved by the Board. Committee actions shall be promptly reported to the Board. A Director may attend any Board committee meeting. The Chairman shall recommend periodic rotation of Committee assignments.

Independent Directors. Independent Director means a Director that meets the definition of independent director as that term is defined by the New York Stock Exchange pursuant to Section 303A(2) of the New York Stock Exchange Listing Standards, and, in the case of the Audit Committee, a Director that meets the audit committee member independence requirements established by the Securities and Exchange Commission pursuant to Section 301 of the Sarbanes-Oxley Act of 2002.

Directors

Nominees for Election to the Board. The Corporate Governance and Nominating Committee shall recommend nominees to the full Board for annual elections of Directors. The Committee shall welcome input from all Directors and stockholders.

Retirement. Retirement age shall be 72. Directors shall submit their resignation effective at the Annual Meeting immediately preceding their 72nd birthday.

Changes in Professional Responsibility. The Board shall consider whether a change in an individual s professional responsibilities directly or indirectly impacts that person s ability to fulfill Directorship obligations. To facilitate the Board s consideration, the Chief Executive Officer and other employee Directors shall submit a resignation as a matter of course upon retirement, resignation or other significant change in professional roles.

Director Compensation and Stock Ownership. From time to time, the compensation of Directors shall be reviewed by the Compensation Committee, which shall make recommendations to the full Board. The Board s philosophy is that a substantial portion of Director compensation shall be equity-based.

Chief Executive Officer Evaluation. The Compensation Committee shall be responsible for coordinating an annual evaluation of the Chief Executive Officer by the Independent Directors. The Independent Directors will also determine guidance for the Compensation Committee with respect to the Chief Executive Officer s compensation. The Chairman of the Compensation Committee shall be the liaison with the Chief Executive Officer.

Management Succession. The Board, with the assistance of the Corporate Governance and Nominating Committee, shall coordinate with the Chief Executive Officer to seek to ensure that a successor for emergencies is designated at all times and that a formalized process governs long-term management development and succession. The Chief Executive Officer shall report to the Board annually about development of senior management personnel and succession plans, which shall be approved by the Board.

Outside Board Memberships. The Chief Executive Officer and other members of senior management shall seek the approval of the Board before accepting outside board memberships, and the Board generally discourages more than one corporate board and one charitable board membership.

Stock Ownership Requirements. Each Independent Director shall adhere to the Stock Ownership Requirements for Directors, as promulgated by the Board.

REPORT OF THE AUDIT COMMITTEE

To: The Board of Directors

The Audit Committee of the Board of Directors of the company reviews the company s financial reporting process on behalf of the Board. Management of the company has the primary responsibility for the financial statements and the reporting process of the company, including the system of internal controls, the presentation of the financial statements and the integrity of the financial statements. Management has represented to the Audit Committee that the company s financial statements have been prepared in accordance with generally accepted accounting principles.

The Audit Committee is responsible for the appointment and oversight of the company s independent registered public accounting firm, Deloitte & Touche LLP, and for approving the auditors compensation. The independent registered public accounting firm reports directly to the Audit Committee and is responsible for (i) auditing the company s financial statements; (ii) expressing an opinion on the conformity of such audited financial statements to generally accepted accounting principles; and (iii) auditing management s assessment of the effectiveness of the company s internal controls over financial reporting as well as the effectiveness of those internal controls.

Two members of the Audit Committee, I.T. Corley and David L. Goldsmith, qualify as audit committee financial experts within the meaning of that term as defined by the Securities and Exchange Commission in Item 401(h) of Regulation S-K. All members of the Audit Committee are independent in accordance with the standards for audit committee member independence established by the New York Stock Exchange as well as the Securities and Exchange Commission. However, the members of the Audit Committee are not professionally engaged in, and are not experts in, auditing or accounting.

Members of the Audit Committee rely without independent verification on the information provided to them and on the representations made by management and the company s auditors. Accordingly, the Audit Committee s review does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee s activities do not assure that the audit of the company s financial statements has been carried out in accordance with the standards of the Public Company Accounting Oversight Board (United States), that the financial statements are presented in accordance with accounting principles generally accepted in the United States of America or that the company s independent registered public accounting firm is in fact independent.

In this context, the Audit Committee has reviewed and discussed the company s audited financial statements with management and the company s auditors. The Audit Committee has discussed with the company s auditors the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees). In addition, the Audit Committee has received from the company s auditors the written disclosures and the letter such auditors have represented are required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and discussed with them their independence from the company and its management. In this connection, the Audit Committee has considered whether such auditors provision of non-audit services to the company is compatible with the auditors independence.

In reliance on the reviews and discussions referred to above, and subject to the limitations set forth above, the Audit Committee has recommended to the Board of Directors, and the Board has approved, that the audited financial statements be included in the company s Annual Report on Form 10-K for the year ended December 31, 2005, for filing with the Securities and Exchange Commission.

Date: March 21, 2006

THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS
I.T. Corley (Chairman)
David L. Goldsmith
Philip R. Lochner, Jr.

REPORT OF THE COMPENSATION COMMITTEE

To: The Board of Directors

The Compensation Committee oversees Apria s overall compensation program for its senior management. In addition, the Compensation Committee evaluates the performance and specifically establishes the compensation of the Chief Executive Officer. The Compensation Committee is comprised entirely of independent Directors who are not officers or employees of Apria.

Compensation Philosophy and Program for Senior Management

During 2005, Apria s compensation program for executive officers was designed to:

- reward each member of senior management for the company s financial performance;
- attract and retain individuals who are capable of leading the company in achieving its business objectives in an industry characterized by competitiveness, growth and a challenging business environment; and
- provide substantial alignment of management s interest with the long-term interest of stockholders by requiring ownership of Apria s stock by executive officers.

The Committee believes a substantial portion of the annual compensation of each member of senior management should relate to, and should be largely contingent upon, the financial success of the company. As discussed below, the program consists of, and is intended to strike a balance among, three elements:

- *Salaries.* Salary for the Chief Executive Officer is based principally on the Committee s evaluation of individual job performance, company performance and an assessment of the salaries and total compensation mix paid by other similar companies to executive officers holding approximately equivalent positions. The salaries for all other executive officers are approved by the Compensation Committee pursuant to recommendations made by the Chief Executive Officer on the basis of similar criteria.
- *Executive Bonuses*. Executive bonuses are primarily based on an evaluation of company performance against quantitative one-year financial goals, such as revenues and earnings. Progress toward specific individual objectives is also considered. Because publication of sensitive and proprietary quantifiable targets and other specific goals for the company and its executive officers could place the company at a competitive disadvantage, it has not been the company s practice to disclose the specific financial performance target levels set forth in its incentive compensation plans.
- *Long-term Incentive Compensation.* Long-term incentive awards such as stock options, restricted stock purchase rights and grants of restricted stock are designed to insure that incentive compensation is linked to the long-term performance of Apria and its common stock

Stock Ownership Requirements

The Board of Directors has established Stock Ownership Requirements for all members of senior management. Under the Requirements, each senior officer must, over a period of five years, acquire and hold shares of Apria common stock with a total value equivalent to a target level of ownership. The targets range from one-and-one-half to three times base salary, depending on the officer s position.

Compensation Survey

The Committee periodically engages the services of an outside compensation and benefits consulting company to conduct a survey and review of the company s salaries, bonus payments and stock incentive awards for executive officers compared to a peer group of the company s competitors. Based on the consultant s most recent analysis in February 2006, it appears that the levels of executive compensation provided during 2005 were generally competitive with the compensation levels offered by the company s peer group.

Factors Affecting the Evaluation of Executive Performance for 2005

Members of senior management were and continue to be evaluated in light of their contributions toward achievement of the financial and operating objectives established by the Chief Executive Officer and the Board. Future compensation for senior management will continue to be based in large part on the company s ability to effectively develop and implement strategies that enable Apria to achieve those objectives and enhance stockholder value.

2005 Total Compensation for the Chief Executive Officer

Lawrence M. Higby. For 2005, the Committee designed a compensation plan for Mr. Higby which was consistent with that provided to the company s other executive officers. The Committee did not rely entirely on predetermined formulas or a limited set of criteria when it evaluated Mr. Higby s performance. In addition to the other criteria discussed below, the Committee considered management s overall accomplishments, Mr. Higby s individual accomplishments, and the company s financial performance.

Mr. Higby s cash compensation package included a competitive salary with the potential of significant bonus plan compensation in the event the company performed well under his leadership. For 2005, Mr. Higby s annual salary level as Chief Executive Officer was $734,000. Mr. Higby did not receive any bonus compensation for 2005 because the company did not achieve certain financial objectives related to earnings before interest, taxes, depreciation and amortization (EBITDA), earnings per share and net revenue. Mr. Higby s long-term compensation package for 2005 consisted of options to purchase 100,000 shares of Apria common stock at an exercise price of $33.40 per share, vesting in three equal annual installments, and 80,000 shares of restricted stock subject to time-based vesting over seven years, which may be accelerated in the event the company achieves certain predetermined performance targets. For 2006, Mr. Higby will not receive a salary increase. As an executive officer, Mr. Higby is subject to the Stock Ownership Requirements with a target ownership level equal to three times his base salary.

Executive Officer Salaries

In setting salaries, the first element of the executive compensation program, the Committee did not use a predetermined formula. Instead, the 2005 salaries of the Chief Executive Officer and the other executive officers were principally based on the Committee s evaluation of individual job performance and a consideration of salaries paid by similar companies to executive officers holding approximately equivalent positions, as determined by the Committee s independent compensation consultant.

The amounts received by Mr. Higby and the other executive officers as salary in 2005 are shown in the Salary column of the Summary Compensation Table. The Committee felt the salaries were justified in light of the factors mentioned above.

Executive Officer Bonuses

All executive officers had the potential to receive bonuses under the 2005 Executive Bonus Plan, a plan adopted to provide certain members of senior management with significant bonus compensation (up to the full amount of each officer s salary) upon the achievement of improved financial and operating performance levels for the 2005 fiscal year and the achievement of key individual performance objectives by the executives.

Because the targeted levels of company financial performance, as well as many of the individual objectives established in the 2005 Executive Bonus Plan, were not achieved, no bonus payments were made to Mr. Higby or the other executive officers of the company.

Executive Officer Long-Term Incentive Compensation

The company provides long-term compensation to senior management under the company s 2003 Performance Incentive Plan. The performance incentive plan provides the company with the ability to reward key employees, including executive officers, with options to purchase shares of common stock, as well as other equity grants such as shares of restricted stock subject to time-based vesting which may be accelerated if the company s financial performance meets certain targets.

The value of stock options is tied to the future performance of the company s common stock and provides value to the recipient only when the price of the company s common stock increases above the option grant price.

Performance-based grants of restricted stock provide value to the recipient only if the performance targets are met.

Mr. Higby and the other executive officers received stock options and grants of restricted stock as a part of their 2005 compensation, as shown in the

Options Granted column of the Summary Compensation Table.

On November 30, 2005, the Committee approved a resolution accelerating the vesting of all outstanding employee stock options with an exercise price greater than $26.00 per share. The market price of the company s common stock on that date was $24.46 per share, so none of the accelerated options had any current economic value to the option holders. As a result of this action, options to purchase approximately 863,227 shares of Apria common stock (18.6% of the total outstanding options on November 30, 2005) became immediately exercisable, including an aggregate of 456,545 options held by the executive officers. The decision to accelerate vesting of these underwater stock options was made to eliminate the compensation expense that Apria would have otherwise recognized in its Consolidated Statements of Income with respect to these options in connection with the adoption of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS 123R), which was effective January 1, 2006. SFAS 123R generally requires that all stock options and other share-based payments to employees be recognized as an expense at the time of vesting. More than half of the options that were accelerated on November 30, 2005 would have vested according to their terms during 2006 and more than 77% would have vested by February 2007. More than 95% of the accelerated options had an exercise price of $30.20 or greater. As a result of the acceleration, Apria expects to reduce its future share-based compensation expense by approximately $7.6 million.

Tax Treatment of Stock Options and Restricted Stock Purchase Rights

The Compensation Committee has considered the anticipated tax treatment to the company regarding the compensation and benefits paid to the executive officers of the company in light of the enactment of Section 162(m) of the United States Internal Revenue Code. The basic philosophy of the Compensation Committee is to strive to provide the executive officers of the company with a compensation package which will preserve the deductibility of such payments for the company to the greatest extent possible. However, certain types of compensation payments and their deductibility (e.g., the spread on exercise of non-qualified options) depend upon the timing of an executive officer s vesting or exercise of previously granted rights. Moreover, interpretations of and changes in the tax laws and other factors beyond the Compensation Committee s control may affect the deductibility of certain compensation payments. In addition, in order to attract and retain qualified management personnel, it has sometimes proven necessary to grant certain long-term incentives that may not be deductible under Section 162(m) of the Code.

Date: March 21, 2006

THE COMPENSATION COMMITTEE
OF THE BOARD OF DIRECTORS
Philip R. Lochner (Chairman)
Vicente Anido

ELECTION OF DIRECTORS

Nominees for Election to Board

The nominees for election are Vicente Anido, Jr., Terry P. Bayer, I.T. Corley, David L. Goldsmith, Lawrence M. Higby, Richard H. Koppes, Philip R. Lochner, Jr. and Mahvash Yazdi. All of the nominees are currently serving on the Board of Directors except Ms. Yazdi, who is standing for election for the first time at the 2006 Annual Meeting. If elected, each nominee will serve for one year or until the election and qualification of successors.

If any of the nominees should become unavailable for election to the Board of Directors, the persons named in the proxy or their substitutes shall be entitled to vote for a substitute to be designated by the Board of Directors. Alternatively, the Board of Directors may reduce the number of Directors. The Board of Directors has no reason to believe that it will be necessary to designate a substitute nominee or reduce the number of Directors.

Vote Required for Election of Directors

For the purpose of electing Directors, each stockholder is entitled to one vote for each Director to be elected for each share of common stock owned. The eight candidates receiving the highest number of votes will be elected.

The accompanying proxies solicited by the Board of Directors will be voted for the election of the nominees unless the proxy card is marked to withhold authority to vote for any nominee.

The Board of Directors unanimously recommends that you vote for each of the nominees.

Nominees and Directors

Set forth in the table below are the names, ages and past and present positions of the persons serving as Apria s Directors as of March 10, 2006, as well as Ms. Yazdi, who is also a nominee for election to Apria s Board of Directors. The term of each Director expires at the 2006 Annual Meeting.

Name and Age	Business Experience and Directorships	Director Since
David L. Goldsmith, 57	Mr. Goldsmith was elected as Chairman of the Board of Directors of Apria in February 2005, with his appointment becoming effective immediately following the 2005 Annual Meeting of Stockholders. A private investor since 2004, Mr. Goldsmith previously served as Managing Director of RS Investment Management, an investment management firm, from 1999 to 2003. He served as Managing Director of Robertson, Stephens Investment Management, an investment management firm, from 1998 to 1999. Mr. Goldsmith is a Director of Endocare, Inc.	1987
Vicente Anido, Jr., 53	President, Chief Executive Officer and a Director of ISTA Pharmaceuticals, Inc., an ophthalmic pharmaceuticals company, since December 2001. He previously served as General Partner of Windamere Venture Partners, a venture capital group, from 2000 to 2002. From 1996 to 1999 he served as President and Chief Executive Officer of CombiChem, Inc., a drug discovery company.	2002
Terry P. Bayer, 55	Chief Operating Officer at Molina Healthcare, Inc., a multi-state managed care organization, since 2004. Ms. Bayer served as President of AccentCare West, an operator of skilled and unskilled home healthcare operations, from 2002 to 2004 and as President and Chief Operating Officer of Praxis (Sechrist) Clinical Services, an operator of outpatient wound centers, from 1997 to	March 2006

2002. Ms. Bayer was Executive Vice President of Matria Healthcare, a provider of comprehensive health enhancement programs to health plans and employers, from 1996 to 1997. She was President of Matryx Health Partners, a division of Tokos Medical Corporation, and then President of Tokos itself, a national women s healthcare company specializing in maternity management programs, from 1994 to 1996.

Name and Age	Business Experience and Directorships	Director Since
I.T. Corley, 60	President, Chief Executive Officer and Director of SMI Group Holdings, Inc., a large, privately-owned glass recycler, and predecessor companies since September 1995. Mr. Corley previously served as the Chief Financial Officer, Chief Operating Officer and a Director of Allwaste, Inc., from 1990 to 1995. He is a Certified Public Accountant and former Partner with Arthur Andersen, LLP.	2003
Lawrence M. Higby, 60	Chief Executive Officer and a Director of Apria. From 1997 until his appointment as Chief Executive Officer in February 2002, Mr. Higby served as Apria s President and Chief Operating Officer. After his appointment as Chief Executive Officer until August 2004, Mr. Higby continued serving as Apria s President. Mr. Higby also served as Apria s Chief Executive Officer on an interim basis from January through May 1998. 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 serving as 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. Mr. Higby is also a Director of William Lyon Homes, Inc. and the Automobile Club of Southern California.	2002
Richard H. Koppes, 59	Of Counsel to Jones Day, a law firm, and a Co-Director of Executive Education Programs at Stanford University School of Law. He is a member of the Board of Directors of Valeant Pharmaceuticals International. He is also a Director of the Investor Responsibility Research Center and the International Corporate Governance Network. He served as a principal of American Partners Capital Group, a venture capital and consulting firm, from 1996 to 1998. From 1986 to 1996, Mr. Koppes held several positions with the California Public Employees Retirement System, including General Counsel, Interim Chief Executive Officer and Deputy Executive Officer. Mr. Koppes was also a Director of Mercy Healthcare, Sacramento, a non-profit hospital system, from 1994 to 2001 and General Counsel of the California State Department of Health Services from 1977 to 1986.	1998

Philip R. Lochner, Jr., 63	Senior Vice President Chief Administrative Officer of Time Warner Inc. from 1991 to 1998. From March 1990 to June 1991 Mr. Lochner was a Commissioner of the Securities and Exchange Commission. He is a Trustee of The Canterbury School. He is also a Director of Adelphia Communications Corporation, CLARCOR, Inc., GTECH Holdings Corp., Solutia Inc. and CMS Energy.	1998
Mahvash Yazdi, 54	Senior Vice President, Business Integration and Chief Information Officer of Edison International, a global energy services company, since 1997. From 1980 to 1997, Ms. Yazdi held several positions, including Vice President and Chief Information Officer from 1994 to 1997, at Hughes Aircraft Company, a global defense-electronics company.	N/A

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Appointment of Deloitte & Touche LLP

In recognition of the important role of independent accountants, the Board of Directors has determined that its appointment of an independent registered public accounting firm for the company should be submitted to the stockholders of the company for ratification. The Board of Directors has selected Deloitte & Touche LLP to serve as the company s independent registered public accounting firm for the fiscal year ending December 31, 2006, subject to ratification by the holders of a majority of the shares represented in person or by proxy at the Annual Meeting. In the event that the stockholders do not approve Deloitte & Touche LLP as the company s independent registered public accounting firm, the appointment of another independent registered public accounting firm will be considered by the Board of Directors. A representative of Deloitte & Touche LLP is expected to be present at the Annual Meeting and will have an opportunity to make a statement and to respond to appropriate questions.

Vote Required for Ratification

Ratification of the appointment of independent accountants requires the affirmative vote of the holders of a majority of the common stock present or represented by proxy and entitled to vote at the Annual Meeting, assuming the presence of a quorum. Each share of common stock is entitled to one vote. The accompanying proxies solicited by the Board of Directors will be voted for ratification of the appointment of the named accountants unless the proxy card is marked otherwise.

The Board of Directors unanimously recommends that you vote for the proposal.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

Summary of Executive Compensation

The following table sets forth all compensation for the 2005, 2004, and 2003 fiscal years paid to or earned by the company s Chief Executive Officer and four other most highly compensated executive officers who were serving as executive officers as of the end of the 2005 fiscal year (collectively, the Named Executive Officers), as well as Anthony S. Domenico, who was an executive officer until November 28, 2005.

Summary Compensation Table

Annual Compensation	Long-term Compensation Options	All Other Compensation