

APRIA HEALTHCARE GROUP INC

Form DEF 14A

March 25, 2005

**Table of Contents**

**SCHEDULE 14A INFORMATION**

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

(AMENDMENT NO. \_\_)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive  
Additional  
Materials  
 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):

Fee not required.

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

(1) Title of each  
class of securities  
to which  
transaction

applies:

---

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

---

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

---

(4) Proposed maximum aggregate value of transaction:

---

(5) Total fee paid:

---

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

(1) Amount Previously Paid:

---

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

---

(3) Filing Party:

---

(4) Date Filed:

---

**Table of Contents**

**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 Wednesday, April 20, 2005  |
| PLACE                | Westin South Coast Plaza Hotel<br>686 Anton Boulevard<br>Costa Mesa, California 92626  |
| ITEMS OF BUSINESS    | <ol style="list-style-type: none"><li>(1) To elect seven members of the Board of Directors, with such persons to hold office until the 2006 Annual Meeting of Stockholders or until their successors are elected and qualified.</li><li>(2) To ratify the appointment of Deloitte &amp; Touche LLP as the company's independent registered public accounting firm for the fiscal year ending December 31, 2005.</li><li>(3) To transact such other business as may properly come before the Annual Meeting and at any adjournment thereof.</li></ol> |
| RECORD DATE          | You can vote if you were a stockholder of record on March 11, 2005.  |
| ANNUAL REPORT        | Our 2004 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 25, 2005

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

---

**Table of Contents**

**TABLE OF CONTENTS**

|   | <b>Page</b> |
|---|-------------|
| <b><u>SOLICITATION OF PROXIES</u></b>   | 1           |
| <u>Solicitation by Board</u>  | 1           |
| <u>Expense of Solicitation</u>  | 1           |
| <u>Your Vote is Important</u>   | 1           |
| <br>  |             |
| <b><u>VOTING PROCEDURE AND TABULATION</u></b>                                       | 1           |
| <u>Stockholders Entitled to Vote</u>  | 1           |
| <u>Voting on Agenda Items/Right to Revoke Proxy</u>                                 | 1           |
| <u>Voting on Other Matters</u>  | 1           |
| <u>Tabulation of Votes</u>  | 2           |
| <u>Abstentions</u>  | 2           |
| <u>Broker Non-Votes</u>   | 2           |
| <br>  |             |
| <b><u>SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT</u></b>           | 2           |
| <u>Security Ownership Table</u>   | 2           |
| <br>  |             |
| <b><u>INFORMATION REGARDING THE BOARD OF DIRECTORS</u></b>                          | 4           |
| <u>Composition of Board</u>   | 4           |
| <u>Directors Fees</u>   | 4           |
| <u>Committees and Meetings of the Board of Directors</u>                            | 4           |
| <u>Director Independence</u>  | 6           |
| <u>Stockholder Communications to the Board of Directors</u>                         | 6           |
| <br>  |             |
| <b><u>GOVERNANCE OF THE COMPANY</u></b>   | 7           |
| <u>Our Corporate Governance Guidelines</u>  | 7           |
| <u>Our Stock Ownership Requirements for Directors and Senior Executive Officers</u> | 9           |
| <u>Our Code of Ethical Business Conduct</u>   | 9           |
| <br>  |             |
| <b><u>REPORT OF THE AUDIT COMMITTEE</u></b>   | 10          |
| <br>  |             |
| <b><u>REPORT OF THE COMPENSATION COMMITTEE</u></b>                                  | 11          |
| <u>Compensation Philosophy and Program for Senior Management</u>                    | 11          |
| <u>Stock Ownership Requirements</u>   | 11          |
| <u>Compensation Survey</u>  | 12          |
| <u>Factors Affecting the Evaluation of Executive Performance for 2004</u>           | 12          |
| <u>2004 Total Compensation for the Chief Executive Officer</u>                      | 12          |
| <u>Executive Officer Salaries</u>   | 12          |
| <u>Executive Officer Bonuses</u>  | 13          |
| <u>Executive Officer Long-Term Incentive Compensation</u>                           | 13          |
| <u>Tax Treatment of Stock Options and Restricted Stock Purchase Rights</u>          | 13          |
| <br>  |             |
| <b><u>ELECTION OF DIRECTORS</u></b>   | 14          |
| <u>Nominees for Election to Board</u>   | 14          |
| <u>Vote Required for Election of Directors</u>                                      | 14          |
| <u>Nominees and Directors</u>   | 14          |

|   |    |
|---|----|
| <u>RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>   | 16 |
| <u>Appointment of Deloitte &amp; Touche LLP</u>                                       | 16 |
| <u>Vote Required for Ratification</u>   | 16 |
| <br>  |    |
| <u>EXECUTIVE COMPENSATION AND OTHER INFORMATION</u>                                   | 17 |
| <u>Summary of Executive Compensation</u>  | 17 |
| <u>Summary Compensation Table</u>   | 17 |
| <u>Summary of Option, Restricted Stock Purchase Right and Restricted Stock Grants</u> | 18 |
| <u>Stock Option Grants Table</u>  | 18 |
| <u>Restricted Stock Purchase Right ( RSPR ) Grants Table</u>                          | 18 |



**Table of Contents**

|   | <b>Page</b> |
|---|-------------|
| <u>Restricted Stock Grants Table</u>  | 18          |
| <u>Summary of Options and RSPRs Exercised</u>   | 19          |
| <u>Aggregate Exercises in Last Fiscal Year and Fiscal Year-End Value</u>                                  | 19          |
| <u>Compensation Committee Interlocks and Insider Participation</u>  | 19          |
| <br>  |             |
| <u>EMPLOYMENT AND SEVERANCE AGREEMENTS</u>  | 20          |
| <br>  |             |
| <u>PERFORMANCE GRAPH</u>  | 22          |
| <br>  |             |
| <u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>  | 23          |
| <br>  |             |
| <u>INFORMATION REGARDING THE INDEPENDENT AUDITORS OF THE COMPANY</u>                                      | 23          |
| <u>Independent Auditors and Fees</u>  | 23          |
| <u>Independence</u>   | 24          |
| <br>  |             |
| <u>ANNUAL REPORT</u>  | 24          |
| <u>Availability of Annual Report and Treatment of Stockholders Sharing Same Address</u>                   | 24          |
| <br>  |             |
| <u>PROPOSALS OF STOCKHOLDERS</u>  | 24          |
| <br>  |             |
| <u>OTHER MATTERS</u>  | 24          |
| <br>  |             |
| <u>EXHIBIT A</u> Section 303A.02, Independence Tests of the New York Stock Exchange Listed Company Manual |             |

**Table of Contents**

**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 2005 Annual Meeting of Stockholders to be held on April 20, 2005, at 8:00 A.M. local time, at the Westin South Coast Plaza Hotel, 686 Anton Boulevard, Costa Mesa, California 92626, and at any adjournment thereof.**

**This Proxy Statement and the accompanying proxy are first being mailed to stockholders on or about March 25, 2005.**

**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 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 11, 2005, 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 48,982,510 shares of the company's common stock were outstanding (not including 9,627,659 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 (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

**Table of Contents**

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 persons appointed by Apria to act as election inspectors for the meeting.

**Abstentions**

The election inspectors 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 a plurality or majority of votes cast.

**Broker Non-Votes**

The election inspectors 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 11, 2005, 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 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**

| <b>Name of Beneficial Owner</b>              | <b>Amount and Nature<br/>of<br/>Beneficial<br/>Ownership</b> | <b>Percent of<br/>Class</b> |
|--|--|-----------------------------|
| Massachusetts Financial Services Company (1) | 4,152,758  | 8.48                        |
| Boston Partners Asset Management, LLC (2)    | 2,817,230  | 5.75                        |
| Barclays Global Investors, N.A. (3)          | 2,777,011  | 5.67                        |
| Mellon Financial Corporation (4)             | 2,429,459  | 5.00                        |
| Lawrence M. Higby (5)                        | 1,069,052  | 2.18                        |
| David L. Goldsmith (6)                       | 411,652  | *                           |

|  |           |      |
|--|-----------|------|
| Lawrence A. Mastrovich (7)   | 405,332   | *    |
| Ralph V. Whitworth (8)   | 151,666   | *    |
| Anthony S. Domenico (9)  | 145,999   | *    |
| Richard H. Koppes (10)   | 101,000   | *    |
| Philip R. Lochner, Jr. (11)  | 100,000   | *    |
| Amin I. Khalifa (12)   | 79,041    | *    |
| Beverly Benedict Thomas (13)   | 76,000    | *    |
| I. T. Corley (14)  | 35,000    | *    |
| Vicente Anido, Jr. (15)  | 34,000    | *    |
| Jeri L. Lose (16)  | 33,000    | *    |
| All current Directors and executive officers as a group<br>(12 persons) (17) | 2,641,742 | 5.39 |

---

\* Less than 1%

**Table of Contents**

- (1) According to a Schedule 13G, dated February 8, 2005, filed 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.
- (2) According to a Schedule 13G, dated January 19, 2005, filed with the Securities and Exchange Commission, Boston Partners Asset Management, LLC, an investment advisor registered under Section 203 of the Investment Advisers Act of 1940, has sole dispositive and voting power as to 2,817,230 shares. The mailing address for Boston Partners Asset Management, LLC is 28 State Street, 20th Floor, Boston, MA 02109.
- (3) According to a Schedule 13G, dated February 8, 2002, filed 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 2,360,265 shares and sole voting power as to 2,429,477 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, California 94105.
- (4) According to a Schedule 13G/A, dated February 15, 2005, filed with the Securities and Exchange Commission, Mellon Financial Corporation ( *Mellon* ), 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 2,121,649 shares and sole voting power as to 2,131,580 shares. The balance of the shares is held beneficially by the following direct or indirect subsidiaries of Mellon: Mellon Trust of New England, National Association; Mellon Trust of Delaware, National Association; Mellon Bank, N.A.; Mellon Trust of California; Mellon Trust of New York, LLC; and Mellon Private Trust Company, National Association. The mailing address for Mellon is One Mellon Center, Pittsburgh, Pennsylvania 15258.
- (5) Includes 960,452 shares subject to options and restricted stock purchase rights that are currently exercisable and 80,000 shares of restricted stock which are entitled to vote but subject to a vesting schedule.
- (6) Includes 304,986 shares held in a shared trust with Mr. Goldsmith's spouse, 3,000 shares of restricted stock which will vest on the date of Apria's 2005 Annual Meeting of Stockholders, and 103,666 shares subject to options that are currently exercisable.
- (7) Includes 298,665 shares subject to options and restricted stock purchase rights that are currently exercisable, 66,667 shares subject to options which will become exercisable on April 3, 2005, and 40,000 shares of restricted stock which are entitled to vote but subject to a vesting schedule.
- (8) Includes 10,800 shares held by Relational Investors LLC and its affiliates as to which Mr. Whitworth shares voting and dispositive power, 5,000 shares of restricted stock which will vest on the date of Apria's 2005 Annual Meeting of Stockholders and 134,666 shares subject to options that are currently exercisable.
- (9) Includes 135,999 shares subject to options and restricted stock purchase rights that are currently exercisable and 10,000 shares of restricted stock which are entitled to vote but subject to a vesting schedule.
- (10) Includes 3,000 shares of restricted stock which will vest on the date of Apria's 2005 Annual Meeting of Stockholders and 92,000 shares subject to options that are currently exercisable.

- (11) 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 2005 Annual Meeting of Stockholders and 92,000 shares subject to options that are currently exercisable.
- (12) Includes 59,041 shares subject to options and restricted stock purchase rights that are currently exercisable and 20,000 shares of restricted stock which are entitled to vote but subject to a vesting schedule.
- (13) Includes 3,000 shares of restricted stock which will vest on the date of Apria's 2005 Annual Meeting of Stockholders and 67,000 shares subject to options that are currently exercisable
- (14) Includes 5,000 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 2005 Annual Meeting of Stockholders and 27,000 shares subject to options that are currently exercisable.
- (15) Includes 3,000 shares of restricted stock which will vest on the date of Apria's 2005 Annual Meeting of Stockholders and 27,000 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 2005 Annual Meeting of Stockholders and 27,000 shares subject to options that are currently exercisable.
- (17) Includes shares owned by certain trusts. Also includes 26,000 shares of restricted stock which will vest on the date of Apria's 2005 Annual Meeting of Shareholders, 150,000 shares of restricted stock which are entitled to vote but are subject to a vesting schedule, 2,024,489 shares subject to options that are currently exercisable and 66,667 shares subject to options which will become exercisable on April 3, 2005.

**Table of Contents**

**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 nine Directors who are subject to reelection on an annual basis, but the Board has determined that the number of Directors will be reduced to seven while it considers adding new Directors. Seven of the current Directors have been nominated for reelection to 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 2004, 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 share grants to non-employee Directors who are elected or reelected, as the case may be, as Directors at the Annual Meeting. During 2004 each Director, other than the Chairman, received options to purchase 6,000 shares at \$28.21 per share and 3,000 shares of restricted stock vesting approximately one year from the day 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 2005 grants will be comparable to the 2004 stock option and restricted share grants to non-employee Directors mentioned 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](http://www.apria.com)). All members of each committee are independent as independence is defined under the New York Stock Exchange Listing Standards. The Board of Directors held seven meetings during the 2004 fiscal year. All Directors attended at least 75% of Board meetings and applicable committee meetings held during 2004. The company encourages Directors to attend the Annual Meeting of Stockholders and all Directors were in attendance at Apria's 2004 Annual 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



Whitworth, Ms. Lose and Ms. Thomas. Effective on completion of the 2005 Annual Meeting of Stockholders, Mr. Whitworth and Ms. Thomas will no longer be members of the Committee and Richard H. Koppes will be added to the Committee.

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 of a comparable size to Apria, the interplay of the candidate's experience with the

**Table of Contents**

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. In some cases, the Committee has used a search firm to identify potential nominees, but the Board and Committee 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](http://www.apria.com)).

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](http://www.apria.com)). 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 2004.

*Audit Committee.* The Audit Committee is appointed by the Board of Directors to represent and assist the Board with oversight of (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. Goldsmith (Chairman), Corley, Koppes and Lochner, and Ms. Lose. Effective on completion of the 2005 Annual Meeting of Stockholders, Mr. Koppes and Ms. Lose will leave the Committee and Mr. Corley will become its Chairman. 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 pursuant to Section 407 of the Sarbanes-Oxley Act of 2002. The Committee met on eight occasions during 2004. Those meetings included separate sessions with the company's independent auditors, without members of management present, and with the company's internal auditor and general counsel, also without 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 2004.

*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), Anido and Whitworth, and Ms. Thomas. Effective on completion of the 2005 Annual Meeting of Stockholders, Mr. Whitworth and Ms. Thomas will no longer be

**Table of Contents**

members of the Committee and Ms. Lose will be added to the Committee. The Committee met on five occasions during 2004.

**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 Director 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, with the exception of Lawrence M. Higby who is an executive officer of Apria, all of the current Directors and Director nominees are independent.

**Stockholder Communications to the Board of Directors**

Stockholders may send communications to Apria's Board of Directors through Apria's Investor Relations Department by accessing the Information Request page on Apria's website ([www.apria.com](http://www.apria.com)) or by e-mailing [Investor\\_Relations@apria.com](mailto: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 Chairman of the Board.

**Table of Contents**

**GOVERNANCE OF THE COMPANY**

**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 appointment 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.

## **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.

**Table of Contents**

**Our Corporate Governance Guidelines (continued)**

*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.02 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 72<sup>nd</sup> 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 Chief Executive Officer's compensation. The Chairman of the Compensation Committee shall be the liaison with the Chief Executive Officer.

*Management Succession.* The Board 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.





**Table of Contents****Our Stock Ownership Requirements for Directors and Senior Executive Officers**

Apria's Board of Directors believes that the investment community values stock ownership by the company's Directors and senior executive officers and that, by holding an equity position in the company, Directors and senior executive officers demonstrate their commitment to and belief in the long-term profitability of the company. Accordingly, the Board of Directors believes that ownership of company stock by Directors and senior executive officers should be encouraged and has adopted Stock Ownership Requirements that apply to Apria's Directors and officers at the Senior Vice President level and above (including all of the company's named executive officers).

The Stock Ownership Requirements provide that each Director or senior executive officer will acquire and maintain a certain level of ownership of Apria common stock based on the fair market value of that stock from time to time. The target ownership level for Directors who are not senior executive officers is \$150,000. The target ownership level for senior executive officers is based on a multiplier of each officer's base salary. The multipliers for the company's senior executive officers are as follows:

|   |                   |
|---|-------------------|
| Chief Executive Officer                                       | 3.0 x base salary |
| Chief Operating Officer                                       | 2.5 x base salary |
| Executive Vice Presidents (including Chief Financial Officer) | 2.0 x base salary |
| Senior Vice Presidents  | 1.5 x base salary |

To the extent that a Director or officer does not already satisfy the applicable ownership target, the Director or officer is expected to meet the target over a five year period. A senior executive officer is expected to meet any greater ownership target, due to a promotion or increase in base salary, within three years of the promotion or increase.

Shares that count for purposes of meeting the Requirements generally include only shares actually or beneficially owned by the Director or officer. Shares underlying any outstanding stock options and unvested shares of restricted stock do not count for purposes of meeting the Requirements.

Directors and senior executive officers are also expected to satisfy certain minimum holding period requirements with respect to stock options and restricted stock awards granted by Apria. In the case of options (including options in the form of restricted stock purchase rights) granted in 2003 and thereafter, the Director or officer is expected to hold for at least one year after the exercise of the option at least one-half of the net number of shares acquired. The net number of shares generally means the total number of shares acquired less any shares sold or otherwise used to pay the exercise price of the option. In the case of restricted stock awards, the Director or officer is expected to hold for at least one year after the vesting of the award at least one-half of the shares that became vested. The holding period applies to only one-half of the net number of shares acquired or vested, as the case may be, because the Director or officer may need to sell the balance of the shares acquired in order to satisfy any tax obligations related to the option exercise or the vesting of the restricted shares.

After the one-year holding period has been satisfied, the Director or officer must continue to hold at least one-half of the portion of the shares that were subject to the holding period if the Director or officer has not satisfied the applicable stock ownership target (or to the extent a sale of the shares would cause the Director or officer to fall short of the target). The ownership targets and holding periods cease to apply following a termination of service or employment with Apria or following certain change in control events. The Stock Ownership Requirements may be modified from time to time by the Board of Directors.

**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. The current version of the Code may be found on Apria's website ([www.apria.com](http://www.apria.com)).

**Table of Contents**

**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 pursuant to Section 407 of the Sarbanes-Oxley Act of 2002. 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 with the Sarbanes-Oxley standards. 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 control 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, 2004, for filing with the Securities and Exchange Commission.

Date: March 21, 2005

THE AUDIT COMMITTEE  
OF THE BOARD OF DIRECTORS

David L. Goldsmith (Chairman)  
I.T. Corley  
Richard H. Koppes  
Philip R. Lochner, Jr.  
Jeri L. Lose

**Table of Contents**

**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 2004, Apria's compensation program for executive officers was designed to:

reward each member of senior management for the company's overall growth and 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 and an assessment of the salaries and total compensation mix paid by other similar companies to executive officers holding 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 qualitative and quantitative measures.

*Long-term Incentive Compensation.* Long-term incentive awards such as stock options, restricted stock purchase rights and grants of restricted stock are also designed to insure that incentive compensation is linked to the long-term performance of Apria and its common stock.

In 2004, the Committee's overall compensation strategy was structured so that less than 40% of total potential executive compensation consists of cash earned and paid on a short term basis, with up to one-half of the total cash compensation earnable by executive officers consisting of bonuses based on the achievement of financial objectives by the company and of individual performance objectives by the executives. Stock options and restricted stock will also continue to represent a significant portion of executive compensation if managerial efforts result in continued stock price increases. In 2004, more than 68% of total potential executive compensation was tied to long-term company performance through both time-vested stock options and time and performance-vested restricted stock purchase rights. Subject to accelerated vesting and continued employment, the restricted stock purchase rights granted in 2004 will vest at year-end 2010. The vesting date will be accelerated to year-end 2006 if certain predetermined financial targets are achieved.

**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 at least 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. All stock options granted after 2003 require a one-year holding period for the net shares received upon exercise (after deduction of shares sold to pay taxes and the option exercise price), even if the officer has achieved the applicable target level of ownership. For officers not yet in compliance with their target, only one-half of the net after-tax shares may be sold following the one-year holding period. The remaining option shares, together with at least one-half of all Apria shares presently held by each senior officer, must continue to be held as an investment in the company.

**Table of Contents**

**Compensation Survey**

Prior to the commencement of 2004, the Committee had engaged the services of an outside compensation and benefits consulting company in order to conduct a survey and review of the company's salary, stock incentive award and benefits history for executive officers against both general industry and competitor comparison groups. The consultant concluded that the competitor group would provide information regarding the competitive pay structure of the company's direct competitors, while the general industry group would provide information regarding the competitive pay structure for companies employing similar resources. While no new survey was commissioned in 2004, the consultant has periodically provided more recent information to supplement its prior findings. Based on the analysis, it appears that the levels of executive compensation provided during 2004 were generally competitive with the levels offered by the groups surveyed.

**Factors Affecting the Evaluation of Executive Performance for 2004**

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.

**2004 Total Compensation for the Chief Executive Officer**

*Lawrence M. Higby.* When Mr. Higby became the company's Chief Executive Officer, the Committee designed a compensation plan which was consistent with that provided to the company's other executive officers. Although a significant portion of Mr. Higby's 2004 compensation consisted of a bonus plan payment based largely on company performance, the Committee did not rely entirely on predetermined formulas or a limited set of criteria when it evaluated the performance of the company's Chief Executive Officer. 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.

The Committee designed a compensation package for Mr. Higby which provided a competitive salary with the potential of significant bonus plan compensation in the event the company performed well under his leadership. For 2004, Mr. Higby's annual salary level as Chief Executive Officer was \$714,000 and his total bonus compensation (paid in February 2005) was \$592,620. Of the bonus award, 76% was based on the company's achievement of certain financial objectives related to earnings before interest, taxes, depreciation and amortization (EBITDA), earnings per share and net revenue, with the balance paid on recommendation of the Compensation Committee based on Mr. Higby's achievement of certain individual performance goals. Mr. Higby's long-term compensation package for 2004 consisted of options to purchase 150,000 shares of Apria common stock at an exercise price of \$30.40 per share, and restricted stock purchase rights for 64,000 shares at a purchase price of \$7.60 per share. For the 2005 calendar year he has been granted options to purchase an additional 100,000 shares of Apria common stock at an exercise price of \$33.40 per share and 80,000 shares of restricted stock subject to time vesting which may be accelerated in the event the company achieves certain predetermined performance targets. 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 2004 salaries of the Chief Executive Officer and the other executive officers were principally based on:

overall compensation increases throughout Apria;

the Committee's evaluation of individual job performance; and

a consideration of salaries paid by similar companies to executive officers holding equivalent positions.

*Lawrence M. Higby.* The amount received by Mr. Higby as salary in 2004 is shown in the Salary column of the Summary Compensation Table. The Committee felt the salary was justified due to the fact that the company's performance has been strong despite significant government-mandated reductions in Medicare reimbursement.



## **Table of Contents**

*Other Executive Officers.* The 2004 salaries of the other executive officers are shown in the Salary column of the Summary Compensation Table.

### **Executive Officer Bonuses**

Bonuses for all executive officers were awarded under the 2004 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 2004 salary) upon the achievement of improved financial and operating performance levels for the 2004 fiscal year and the achievement of key individual performance objectives by the executives.

The target levels of performance as well as the individual objectives established in the 2004 Executive Bonus Plan were substantially achieved, and the resulting 2004 bonus payments to Mr. Higby and the other most highly compensated executive officers of the company are listed in the Bonus column of the Summary Compensation Table. 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.

### **Executive Officer Long-Term Incentive Compensation**

As noted above, the company provided long-term compensation to certain members of senior management under the company's 2003 Performance Incentive Plan. The performance incentive plan provides the company with the ability periodically to reward key employees, including executive officers, with options to purchase shares of the company's common stock as well as restricted stock purchase rights.

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.

The value of restricted stock purchase rights is also tied to the future performance of the company's common stock and provides increasing value to the recipient when the price of the company's common stock increases.

Mr. Higby and the other executive officers received stock option grants and Mr. Higby, as well as Amin Khalifa and Lawrence Mastrovich, received restricted stock purchase rights as a part of their 2004 compensation, which grants are shown in the Options Granted column of the Summary Compensation Table.

### **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, 2005

THE COMPENSATION COMMITTEE  
OF THE BOARD OF DIRECTORS

Philip R. Lochner (Chairman)

Vicente Anido

Beverly Benedict Thomas

Ralph V. Whitworth

Table of Contents**ELECTION OF DIRECTORS****Nominees for Election to Board**

The nominees for election are Vicente Anido, Jr., I.T. Corley, David L. Goldsmith, Lawrence M. Higby, Richard H. Koppes, Philip R. Lochner, Jr. and Jeri L. Lose, each of whom currently serves on the Board. If elected, they 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 further 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 further 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 seven 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 11, 2005. The term of each Director expires at the 2005 Annual Meeting.

| <b>Name and Age</b>  | <b>Business Experience During Last Five Years and Directorships</b>   | <b>Director Since</b> |
|--|---|-----------------------|
| Ralph V. Whitworth, 49<br><i>(Not Standing for Reelection)</i> | Chairman of the Board of Directors of Apria since 1998. Mr. Whitworth is a principal of Relational Investors LLC, a private investment company. He is also a principal in Relational Advisors LLC, a financial advisory and investment banking firm which is registered as a broker-dealer under Section 15(b) of the Securities Exchange Act of 1934 and a member of the National Association of Securities Dealers, Inc. Mr. Whitworth has announced his retirement from Apria's Board of Directors to be effective immediately following the 2005 Annual Meeting of Stockholders and is therefore not standing for reelection. | 1998                  |
| Vicente Anido, Jr., 52   | 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  | 2002                  |

CombiChem, Inc., a drug discovery company.

I.T. Corley, 59

President, Chief Executive Officer and Director of NexCycle SMI Investment Company, LLC since April, 2004. Chairman of the Board of Directors, President and Chief Executive Officer of Strategic Materials, Inc. and of its parent company, Strategic Holdings, Inc., from 1995 to 2004. NexCycle is the successor by merger to Strategic Materials, Inc. and is a large, privately-owned glass recycler. Mr. Corley previously served as the Chief Financial Officer, Chief Operating Officer and a Director of Allwaste, Inc., from 1990 to 1995 and as the Vice President, Controller and the Vice President, Finance of Mesa Petroleum Co. and Mesa Limited Partnership, respectively, from 1984 to 1988. He is a Certified Public Accountant and former Partner with Arthur Andersen, LLP.

2003

**Table of Contents**

| Name and Age               | Business Experience During Last Five Years and Directorships   | Director Since |
|----------------------------|--|----------------|
| David L. Goldsmith, 56     | Mr. Goldsmith was elected as Chairman of the Board of Directors of Apria in February, 2005, with his appointment to become effective immediately following the 2005 Annual Meeting of Stockholders, assuming his reelection to the Board. 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, in 1998 and 1999.  | 1987           |
| Lawrence M. Higby, 59      | Chief Executive Officer and a Director of Apria. From 1997 until his appointment as Chief Executive Office in February 2002, Mr. Higby served as Apria's President and Chief Operating Officer. 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.  | 2002           |
| Richard H. Koppes, 58      | 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., 62 | 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 Adelpia Communications Corporation, Clarcor, Inc., GTech Holdings Corp. and Solutia Inc.   | 1998           |
| Jeri L. Lose, 47           | Vice President, Information Technology and Chief Information Officer of St. Jude Medical, Inc., a medical device designer and manufacturer since   | 2002           |

1999. Previously, Ms. Lose served as Vice President, Information Technology Systems Development of U.S. Bancorp, a financial services holding company, in St. Paul, Minnesota, from 1993 to 1999.

Beverly Benedict Thomas,  
62  
*(Not Standing for  
Reelection)*

Managing Partner of Thomas Consulting Group, a consulting firm specializing in public affairs and strategic planning. Previously, Ms. Thomas was a principal of UT Strategies, Inc., a public affairs firm, from 1995 to 1997. Ms. Thomas served as a Commissioner of the Los Angeles City Employees Retirement System from 1995 to 2000 and as a Director of Catellus Real Estate Development Corporation, a diversified real estate operating company, from 1995 to 2001. From 1993 to 1995, Ms. Thomas served on the Boards of the California Public Employees Retirement System and the California State Teachers Retirement System. Ms. Thomas has announced her retirement from Apria's Board of Directors to be effective immediately following the 2005 Annual Meeting of Stockholders and is therefore not standing for reelection.

1998

**Table of Contents**

**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, 2005, subject to ratification by the holders of a majority of the shares represented 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 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.**

**Table of Contents****EXECUTIVE COMPENSATION AND OTHER INFORMATION****Summary of Executive Compensation**

The following table sets forth all compensation for the 2004, 2003, and 2002 fiscal years paid to or earned by Apria's Chief Executive Officer and the three other executive officers of the company who were serving in such capacity as of December 31, 2004.

**Summary Compensation Table**

| Name   | Year | Annual Compensation |               | Long-term Compensation       | All Other Compensation |
|--|------|---------------------|---------------|------------------------------|------------------------|
|  |      | Salary(1)<br>(\$)   | Bonus<br>(\$) | Options<br>Granted(2)<br>(#) |                        |
| Lawrence M. Higby<br>Chief Executive Officer                                 | 2004 | 724,632             | 592,620       | 214,000                      | 6,500(3)               |
|  | 2003 | 687,479             | 700,000       | 464,000                      | 254,547(4)             |
|  | 2002 | 593,716             | 600,000       | 100,000                      | 2,831,619(5)           |
| Lawrence A. Mastrovich<br>President and<br>Chief Operating Officer (6)       | 2004 | 480,742             | 390,000       | 123,000                      | 6,500(3)               |
|  | 2003 | 438,214             | 450,000       | 227,000                      | 4,009(3)               |
|  | 2002 | 250,686             | 375,000       | 200,000                      | 144,764(7)             |
| Anthony S. Domenico<br>Executive Vice President,<br>Sales                    | 2004 | 261,800             | 173,400       | 40,000                       | 6,500(3)               |
|  | 2003 | 251,664             | 250,000       | 53,000                       | 4,009(3)               |
|  | 2002 | 225,646             | 225,000       | 20,000(8)                    | 11,158(9)              |
| Amin I. Khalifa<br>Executive Vice President,<br>Chief Financial Officer (10) | 2004 | 328,517             | 235,060       | 98,000                       | 2,635(3)               |
|  | 2003 | 78,750              | 78,750        | 100,625                      | 2,536(11)              |
|  | 2002 |                     |               |                              |                        |

- (1) These amounts include an automobile allowance which is paid as salary. Salary is paid on the basis of bi-weekly pay periods, with payment for each period being made during the week following its termination. Due to the fact that some years contain payment dates for pay periods which begin or end in other years, amounts reported as salary paid for a particular year may vary slightly from the actual amounts of the salaries of the executive officers.
- (2) Options granted include restricted stock purchase rights granted by Apria for the respective year. Does not include the restricted stock and stock option grants made on December 30, 2004, as compensation for the 2005 fiscal year. See the "Stock Option Grants" and "Restricted Stock Grants" tables below for specific grant information and footnote (2) in "Summary of Option, Restricted Stock Purchase Right and Restricted Stock Grants" for a general description of restricted stock purchase rights.
- (3) Annual contribution by Apria to the company's 401(k) Savings Plan in the name of the individual.
- (4)



\$4,009 annual contribution by Apria to the company's 401(k) Savings Plan in the name of Mr. Higby and \$250,538 in net proceeds from the exercise of employee stock options.

- (5) \$5,500 annual contribution by Apria to the company's 401(k) Savings Plan in the name of the individual and \$2,826,119 in net proceeds from the exercise of employee stock options.
- (6) Mr. Mastrovich has served as the company's Chief Operating Officer since April 4, 2002. He was appointed to the additional office of President in July, 2004.
- (7) \$2,134 annual contribution by Apria to the company's 401(k) Savings Plan in the name of Mr. Mastrovich and \$142,630 relocation assistance payment.
- (8) Option grant for 2002 approved by the company's Board of Directors in October 2001, but not effective and not fixed as to price until January 2, 2002.
- (9) \$5,500 annual contribution by Apria to the company's 401(k) Savings Plan in the name of Mr. Domenico and \$5,658 relocation assistance payment.
- (10) Mr. Khalifa was hired as the company's Executive Vice President, Chief Financial Officer effective October 1, 2003.
- (11) Reimbursement for medical insurance payments.

**Table of Contents****Summary of Option, Restricted Stock Purchase Right and Restricted Stock Grants**

The following tables provide information with respect to grants of stock options, restricted stock purchase rights and restricted stock in 2004 to Apria's Chief Executive Officer and the three other executive officers of the company who were serving in such capacity as of December 31, 2004.

**Stock Option Grants Table**

| Name                   | Number of Securities Underlying Options Granted(1) | % of Total Options Granted to Employees in Fiscal Year | Exercise Price (\$) | Expiration Date of Options Granted | Potential Realizable Value at Assumed Annual Rates of Stock Appreciation for Option Term (\$) |           |
|------------------------|--|--|---------------------|------------------------------------|---|-----------|
|                        |  |  |                     |                                    | 5%  | 10%       |
| Lawrence M. Higby      | 150,000  | 9.43%  | 30.40               | 2/15/14                            | 2,866,767   | 7,264,378 |
|                        | 100,000  | 6.29%  | 33.40               | 12/29/14                           | 2,100,508   | 5,323,100 |
| Lawrence A. Mastrovich | 100,000  | 6.29%  | 30.40               | 2/15/14                            | 1,911,178   | 4,842,918 |
|                        | 75,000   | 4.72%  | 33.40               | 12/29/14                           | 1,575,381   | 3,992,325 |
| Anthony S. Domenico    | 40,000   | 2.52%  | 30.40               | 2/15/14                            | 764,471   | 1,937,167 |
|                        | 20,000   | 1.26%  | 33.40               | 12/29/14                           | 420,102   | 1,064,620 |
| Amin I. Khalifa        | 75,000   | 4.72%  | 30.40               | 2/15/14                            | 1,433,383   | 3,632,189 |
|                        | 50,000   | 3.14%  | 33.40               | 12/29/14                           | 1,050,254   | 2,661,550 |

**Restricted Stock Purchase Right ( RSPR ) Grants Table**

| Name                   | Number of Securities Underlying RSPRs Granted(2) | % of Total RSPRs Granted to Employees in Fiscal Year | Exercise Price (\$) | Expiration Date of RSPRs Granted | Potential Realizable Value at Assumed Annual Rates of Stock Appreciation for RSPR Term (\$) |           |           |
|------------------------|--|--|---------------------|----------------------------------|---|-----------|-----------|
|                        |  |  |                     |                                  | 0%  | 5%        | 10%       |
| Lawrence M. Higby      | 64,000   | 58%  | 7.60                | 2/15/14                          | 1,459,200   | 2,682,777 | 4,559,985 |
| Lawrence A. Mastrovich | 23,000   | 21%  | 7.60                | 2/15/14                          | 524,400   | 964,123   | 1,638,745 |
| Anthony S. Domenico    |  |  |                     |                                  |   |           |           |
| Amin I. Khalifa        | 23,000   | 21%  | 7.60                | 2/15/14                          | 524,400   | 964,123   | 1,638,745 |

**Restricted Stock Grants Table**

| Number of | % of Total Restricted Stock | Granted | Value of |
|-----------|-----------------------------|---------|----------|
|           |                             |         |          |

| <b>Name</b>            | <b>Shares<br/>Granted(3)</b> | <b>to<br/>Employees<br/>in<br/>Fiscal Year</b> | <b>Vesting<br/>Date (3)</b> | <b>Restricted Stock<br/>on Date of Grant<br/>(\$)</b> |
|------------------------|------------------------------|--|-----------------------------|---|
| Lawrence M. Higby      | 80,000                       | 40%  | 12/31/11                    | 2,672,000   |
| Lawrence A. Mastrovich | 40,000                       | 20%  | 12/31/11                    | 1,336,000   |
| Anthony S. Domenico    | 10,000                       | 5%   | 12/31/11                    | 334,000   |
| Amin I. Khalifa        | 20,000                       | 10%  | 12/31/11                    | 668,000   |

(1) All of such options were granted under the 2003 Performance Incentive Plan and have a maximum term of 10 years from the respective date of grant. Each option is scheduled to vest and become exercisable as to one-third of the total number of shares subject to the option on each of the first, second, and third anniversaries of the respective date of grant of the award. Acceleration of the exercisability of the options, and the early termination of the options, may occur under certain circumstances, including a change in control of Apria or the termination of the award recipient's employment. The options expiring on December 29, 2014 were granted on December 30, 2004 and are for the 2005 fiscal year.

**Table of Contents**

(2) Constitutes an option granted in the form of a restricted stock purchase right. A restricted stock purchase right is granted at a per share exercise price at a significant discount to the fair market value of a share of Apria common stock at the time of grant of the award. In this respect, a restricted stock purchase right is similar to restricted stock in the incentives that are intended to be conveyed. However, a restricted stock purchase right is similar to an option in that the award recipient must exercise the award (once vested) and pay the applicable exercise price in order to acquire the shares subject to the award. All of such restricted stock purchase rights were granted under the 2003 Performance Incentive Plan and have a maximum term of 10 years from the respective date of grant. Each of the restricted stock purchase rights in this table is scheduled to vest and become exercisable on December 31, 2010. Vesting will accelerate to December 31, 2006 if the company achieves a predetermined financial target for the three-year period ending on that date. Acceleration of the exercisability of the restricted stock purchase rights, and the early termination of the awards, may occur under certain circumstances, including a change in control of Apria or the termination of the award recipient's employment.

(3) Vesting subject to continued employment through the vesting date and subject to full acceleration if the company achieves a predetermined performance target for the three-year period ending December 31, 2007. Grants in this table were for the 2005 fiscal year.

**Summary of Options and RSPRs Exercised**

The following table provides information with respect to the exercise of stock options and restricted stock purchase rights during the 2004 fiscal year by Apria's Chief Executive Officer and the three other executive officers of the company who were serving in such capacity as of December 31, 2004, together with the fiscal year-end value of unexercised options and restricted stock purchase rights.

**Aggregate Exercises in Last Fiscal Year and Fiscal Year-End Value**

| Name                   | Shares<br>Acquired<br>on<br>Exercise<br>(#) | Value<br>Realized<br>(\$) | Number of<br>Securities<br>Underlying<br>Unexercised                        | Value of Unexercised<br>In-<br>The-Money Options (1)<br>at      |
|------------------------|---|---------------------------|---|---|
|                        |   |                           | Options (1) at<br>Fiscal Year-End<br>Exercisable/Unexercisable<br>(#) / (#) | Fiscal Year-End (2)<br>Exercisable/Unexercisable<br>(\$) / (\$) |
| Lawrence M. Higby      |   |                           | 718,785 /<br>717,001  | 9,374,010 / 7,025,892   |
| Lawrence A. Mastrovich |   |                           | 215,332 /<br>409,668  | 2,366,979 / 3,391,181   |
| Anthony S. Domenico    |   |                           | 107,666 /<br>100,334  | 1,112,623 / 683,567   |
| Amin I. Khalifa        |   |                           | 34,041 /<br>214,584   | 284,885 / 1,253,720   |

(1) Includes both options and restricted stock purchase rights.

- (2) Market value of the securities underlying all options and restricted stock purchase rights held by executive officers at year-end, minus the exercise price of in-the-money options and restricted stock purchase rights. The market value of a share of Apria's common stock at the close of trading on the last trading day of 2004 (December 31) was \$32.95.

**Compensation Committee Interlocks and Insider Participation**

The Compensation Committee consisted during 2004 of Messrs. Lochner (Chairman), Anido and Whitworth, and Ms. Thomas. No member of the Compensation Committee (i) was an officer or employee of the company or any of its subsidiaries during 2004, (ii) was formerly an officer of the company or any of its subsidiaries, or (iii) had any relationships requiring disclosure by the company under the SEC's rules requiring disclosure of certain relationships and related party transactions. None of the executive officers serves, or during 2004 served, as a member of the Board of Directors or Compensation Committee of any entity that has one or more executive officers serving on the company's Board of Directors or Compensation Committee.

**Table of Contents**

**EMPLOYMENT AND SEVERANCE AGREEMENTS**

---

Apria has employment agreements, non-disclosure/noncompetition agreements and/or severance agreements with the following executive officers and other persons listed in the Summary Compensation Table.

**Lawrence M. Higby.** Pursuant to an Amended and Restated Employment Agreement which became effective February 12, 2002, Mr. Higby serves as Apria's Chief Executive Officer. The Agreement provides that Mr. Higby is to receive an annual salary of \$600,000, subject to increases at the discretion of the company's Board of Directors or its Compensation Committee. Mr. Higby's annual salary is currently \$734,000. Mr. Higby is also entitled to participate in Apria's annual bonus, incentive, 401(k) and other benefit programs generally available to executive officers of the company. The agreement also provides for (i) reasonable access to accountants for personal financial planning, (ii) an automobile allowance, (iii) reimbursement of certain other expenses and (iv) an indemnification of Mr. Higby on an after-tax basis in the event he incurs an excise tax under Section 4999 of the Internal Revenue Code.

The company also has entered into a Nondisclosure and Noncompetition Agreement with Mr. Higby pursuant to which, if the company terminates Mr. Higby's employment without cause, or if he terminates his employment with good reason (including upon a change in control), Mr. Higby shall be entitled to receive cash payments in exchange for the performance of certain agreements pertaining to nondisclosure and noncompetition following the termination. Payments under the Nondisclosure and Noncompetition Agreement are required to be made in 52 equal weekly installments following the termination, and shall equal, in the aggregate, three times the sum of (i) his annual salary, (ii) the average of his two most recent annual bonuses, (iii) his annual car allowance, and (iv) an additional amount equal to the average annual cost for company employees of obtaining certain post-employment medical insurance. The company shall be required to provide an office and secretarial support at a cost not to exceed \$50,000 during the year following such a termination. In addition, 93,590 shares of the 150,000 share stock option grant issued to Mr. Higby in January 1998 will remain exercisable for a period of three years following such termination.

**Lawrence A. Mastrovich.** Pursuant to an Employment Agreement dated April 4, 2002, Mr. Mastrovich serves as the company's President and Chief Operating Officer. The Agreement initially has a two-year term that is extended one day for each day of Mr. Mastrovich's employment during its term. The Agreement may be terminated at any time by the company or by Mr. Mastrovich. The Agreement provides that Mr. Mastrovich's salary shall be at least \$375,000. Mr. Mastrovich's annual salary is currently \$500,000. Mr. Mastrovich is entitled to participate in Apria's annual bonus, incentive, 401(k) and other benefit programs generally available to executive officers of the company. The agreement also provides for (i) reasonable access to accountants for personal financial planning, (ii) an automobile allowance, (iii) reimbursement of certain other expenses and (iv) an indemnification of Mr. Mastrovich on an after-tax basis in the event he incurs an excise tax under Section 4999 of the Internal Revenue Code.

If the company terminates Mr. Mastrovich's employment without cause, or if he terminates his employment with good reason, Mr. Mastrovich shall receive a lump sum payment equal to his annual salary and car allowance that would have been payable through the remaining two-year term of the agreement, plus two times the sum of (i) the average of his two most recent annual bonuses and (ii) the average annual cost for company employees of obtaining certain post-employment medical insurance.

**Anthony S. Domenico.** In May 2002, Mr. Domenico entered into an Executive Severance Agreement with the company. An amendment to that agreement became effective March 18, 2003. Pursuant to that agreement, Mr. Domenico serves in a position and undertakes duties at Apria's discretion. Currently, Mr. Domenico serves as Apria's Executive Vice President, Sales. The agreement provides that Mr. Domenico's salary shall be at the company's discretion. His annual salary is currently \$262,000. Mr. Domenico is entitled to participate in Apria's stock option plans and all other benefit programs generally available to executive officers of the company at the company's

discretion. He is also entitled to bonuses in accordance with the bonus plans from time to time in effect for Apria's executives and reimbursement of certain expenses at the company's discretion. If the company terminates his employment without cause, or if he terminates his employment with good reason, Mr. Domenico is entitled to receive severance pay equal to two times the sum of (i) his annual salary, (ii) the average of his two most recent annual bonuses, (iii) his annual car allowance and (iv) an additional amount equal to the average annual cost for company employees of obtaining certain post-employment medical

**Table of Contents**

insurance. Such payments shall be payable in periodic installments over two years.

**Amin I. Khalifa.** Pursuant to an Executive Severance Agreement dated April 23, 2004, Mr. Khalifa serves in a position and undertakes duties at Apria's discretion. Mr. Khalifa currently serves as the company's Executive Vice President, Chief Financial Officer. The agreement provides that Mr. Khalifa's salary shall be at the company's discretion. His annual salary is currently \$330,900. Mr. Khalifa is also entitled to participate in Apria's stock option plans and all other benefit programs generally available to executive officers of the company at the company's discretion. He is also entitled to bonuses in accordance with the bonus plans from time to time in effect for Apria's executives and reimbursement of certain expenses at the company's discretion. If the company terminates his employment without cause, or if he terminates his employment with good reason, Mr. Khalifa is entitled to receive severance pay equal to the sum of (i) his annual salary, (ii) the average of his two most recent annual bonuses, (iii) his annual car allowance and (iv) an additional amount equal to the average annual cost for company employees obtaining certain post-employment medical insurance. Such payments shall be payable in periodic installments over one year.



**Table of Contents****PERFORMANCE GRAPH**

---

The following graph shows the changes over the last five-year period in the value of \$100 invested in (i) the common stock of Apria, (ii) the S&P 500 Stock Index, and (iii) the Peer Group Index (1). The value of each investment is based on share price appreciation, with reinvestment of all dividends. The investments are assumed to have occurred at the beginning of the period presented.

**Comparison of Five Year Cumulative Total Return  
Among Apria Healthcare Group Inc.,  
The S&P 500 Index and the Peer Group Index**

|                             | <b>12/99</b> | <b>12/00</b> | <b>12/01</b> | <b>12/02</b> | <b>12/03</b> | <b>12/04</b> |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Apria Healthcare Group Inc. | 100.00       | 165.85       | 139.31       | 123.98       | 158.71       | 183.69       |
| S & P 500                   | 100.00       | 90.89        | 80.09        | 62.39        | 80.29        | 86.09        |
| Peer Group                  | 100.00       | 161.62       | 171.75       | 181.50       | 177.24       | 254.40       |

---

(1) The Peer Group Index is based on the cumulative total returns of the following companies: Coram Healthcare Corporation, Lincare Holdings, Inc., Optioncare, Inc., and American Homepatient, Inc.

It should be noted that this graph represents historical stock price performance and is not necessarily indicative of any future stock price performance.

The foregoing report of the Compensation Committee of the Board of Directors regarding compensation and the performance graph that appears above shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, or the Exchange Act, or incorporated by reference in any document so filed.

**Table of Contents****SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

---

Section 16(a) of the Securities Exchange Act of 1934 requires the company's Directors and executive officers, and persons who own more than 10% of a registered class of the company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission and the New York Stock Exchange. Directors, executive officers, and greater than 10% stockholders are required by the Securities and Exchange Commission to furnish the company with copies of the reports they file.

Based solely on its review of the copies of such reports and written representations from certain reporting persons that certain reports were not required to be filed by such persons, the company believes that all of its Directors, executive officers and greater than 10% beneficial owners complied with all filing requirements applicable to them with respect to transactions during the 2004 fiscal year.

**INFORMATION REGARDING THE INDEPENDENT AUDITORS OF THE COMPANY**

---

**Independent Auditors and Fees**

Deloitte & Touche LLP was retained as the company's independent registered public accounting firm for the 2004 fiscal year. As noted previously, a representative of Deloitte & Touche LLP will be present at the Annual Meeting, may make a statement and will be available to answer appropriate questions. The following table presents the aggregate fees billed by Deloitte & Touche LLP, for services provided during 2004 and 2003:

|                        | <b>2004(5)(6)</b> | <b>2003(5)(6)</b> |
|------------------------|-------------------|-------------------|
| Audit Fees (1)         | \$ 1,708,822      | \$ 811,984(7)     |
| Audit-Related Fees (2) | 44,187            | 77,589            |
| Tax Fees (3)           |                   | 41,056            |
| All Other Fees (4)     | 27,010            | 18,608            |
| Total                  | \$ 1,780,019      | \$ 949,237(7)     |

- 
- (1) Audit fees consisted of audit work performed in the preparation of the financial statements, as well as work that generally only the independent auditor can reasonably be expected to provide, such as statutory audits and reviews of interim financial information. The audit fees for 2004 include \$906,551 in audit fees relating to internal controls. The audit fees for 2003 include \$76,313 and the audit fees for 2004 include \$4,957 relating to a debt offering by the company.
- (2) Audit-related fees consisted primarily of fees paid for accounting and auditing consultation services and audits of the company's employee benefits plans for the prior year and fees for services related to Sarbanes-Oxley readiness.
- (3) Tax fees consist principally of assistance related to tax compliance and reporting.
- (4) Other fees include various fees not included in the above categories.

- (5) All audit and audit-related fees were approved by the Audit Committee.
- (6) The Audit Committee approves in advance all audit services, audit-related services and tax-related services provided by the company's independent public accountants. Pursuant to the pre-approval policy adopted by the Board of Directors in 2003, the Audit Committee also approves in advance all other services provided by the independent public accountants on a case-by-case basis. All engagements of Deloitte & Touche in 2004 and 2003 were pre-approved pursuant to the policy regardless of the size or nature of the engagement.
- (7) Includes \$39,847 in audit fees billed by Deloitte & Touche LLP and paid by Apria after mailing of the Proxy Statement for the company's 2004 Annual Meeting of Stockholders.

**Table of Contents**

**Independence**

The Audit Committee of the Board of Directors does not believe the fees billed by Deloitte & Touche LLP for non-audit services during 2004 are incompatible with maintaining the auditors' independence.

**ANNUAL REPORT**

---

**Availability of Annual Report and Treatment of Stockholders Sharing Same Address**

The company's 2004 Annual Report containing audited financial statements as of December 31, 2004 and 2003, and for each of the three years in the period ended December 31, 2004, accompanies this Proxy Statement. Unless the company has received a contrary request from the affected stockholders, only one copy each of this Proxy Statement and the Annual Report are being delivered to two or more stockholders sharing the same address. Upon written or oral request, Apria will send stockholders, promptly and without charge, a copy of (i) its Annual Report on Form 10-K for the fiscal year ended December 31, 2004, which the company has filed with the Securities and Exchange Commission, (ii) this Proxy Statement, (iii) its 2004 Annual Report to Stockholders, (iv) its Committee Charters referenced in this Proxy Statement, (v) its Code of Ethical Business Conduct, (vi) its Corporate Governance Guidelines, and (vii) its Policy Regarding Alternative Director Nominations by Stockholders. Copies of exhibits to the Annual Report on Form 10-K will also be provided upon written request and payment of a fee of \$.25 per page plus postage.

Two or more stockholders who share the same address and receive multiple copies of Apria's Annual Report to Stockholders and/or this Proxy Statement may make a written or oral request to receive only one copy of the company's Annual Report and/or Proxy Statement. Any and all such requests described in this section should be directed to the Investor Relations Department, at the address of the company set forth on the first page of this Proxy Statement, or may be made by telephone by calling (949) 639-2415.

**PROPOSALS OF STOCKHOLDERS**

---

For stockholder proposals to be considered for inclusion in the proxy materials for Apria's 2006 Annual Meeting of Stockholders under Securities and Exchange Commission Rule 14a-8, they must be received by the Secretary of the company no later than November 27, 2005. For a Director nomination made in compliance with the company's Policy Regarding Alternative Director Nominations by Stockholders to be considered timely, it must be received by the Secretary of the company no later than January 21, 2006 and no earlier than November 22, 2005. All other proposals will be deemed untimely unless submitted not less than 60 nor more than 90 days prior to the 2006 Annual Meeting.

**OTHER MATTERS**

---

At the time of the preparation of this Proxy Statement, the Board of Directors knows of no other matters which will be acted upon at the Annual Meeting. If any other matters are presented for action at the Annual Meeting or at any adjournment thereof, it is intended that the proxies will be voted with respect thereto in accordance with the best judgment and in the discretion of the proxy holders.

By Order of the Board of Directors,

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

Lake Forest, California  
March 25, 2005

---

**IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY. STOCKHOLDERS ARE URGED TO COMPLETE, SIGN, DATE AND RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED ENVELOPE.**

**Table of Contents**

**EXHIBIT A**

**Section 303A.02, Independence Tests of the New York Stock Exchange Listed Company Manual:**

No director qualifies as independent unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). Companies must identify which directors are independent and disclose the basis for that determination.

In addition, a director is not independent if:

- (i) The director is, or has been within the last three years, an employee of the listed company, or an immediate family member is, or has been within the last three years, an executive officer, of the listed company.
  - (ii) The director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$100,000 in direct compensation from the listed company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).
  - (iii) (A) The director or an immediate family member is a current partner of a firm that is the company's internal or external auditor; (B) the director is a current employee of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or (D) the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the listed company's audit within that time.
  - (iv) The director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the listed company's present executive officers at the same time serves or served on that company's compensation committee.
  - (v) The director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the listed company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues.
-

**Table of Contents**

**APRIA HEALTHCARE GROUP INC.  
26220 ENTERPRISE COURT  
LAKE FOREST, CALIFORNIA 92630  
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The stockholder(s) whose name(s) appear(s) on the reverse side hereof appoint(s) Robert S. Holcombe, Amin I. Khalifa and Raoul Smyth, and each of them, proxies with full power of substitution, to vote all shares of Common Stock of Apria Healthcare Group Inc. (the Company) held of record by the undersigned on March 11, 2005, the record date with respect to this solicitation, at the Annual Meeting of Stockholders of the Company to be held at the Westin South Coast Plaza Hotel, 686 Anton Boulevard, Costa Mesa, California 92626, beginning at 8:00 A.M., local time on Wednesday, April 20, 2005, and at any adjournment thereof, as designated on the reverse side hereof.

**(Continued and to be signed on the reverse side)**

---

**Table of Contents**

**ANNUAL MEETING OF STOCKHOLDERS OF**

**APRIA HEALTHCARE GROUP INC.**

**April 20, 2005**

Please sign, date and mail  
your proxy card in the  
envelope provided as soon  
as possible.

êPlease detach along perforated line and mail in the envelope provided.ê

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE NOMINEES AND THE PROPOSAL LISTED BELOW.**

**PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE** þ

1. ELECTION OF DIRECTORS

- o **FOR ALL NOMINEES**
- o **WITHHOLD AUTHORITY FOR ALL NOMINEES**
- o **FOR ALL EXCEPT**  
(See instruction below)

**NOMINEES:**

- O Vicente Anido, Jr.
- O I.T. Corley
- O David L. Goldsmith
- O Lawrence M. Higby
- O Richard H. Koppes
- O Philip R. Lochner, Jr.
- O Jeri L. Lose

**INSTRUCTION:** To withhold authority to vote for any individual nominee(s), mark **FOR ALL EXCEPT** and fill in the circle next to each nominee for whom you wish to withhold authority, as shown here: l



To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

- |   | FOR                   | AGAINST               | ABSTAIN               |
|---|-----------------------|-----------------------|-----------------------|
| 2. RATIFICATION OF APPOINTMENT OF THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM with respect to the proposal to ratify the appointment of Deloitte & Touche LLP as the Company's independent accountant for the fiscal year ending December 31, 2005. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

**OTHER MATTERS**

In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting and at any adjournment thereof.

**THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED BY THE UNDERSIGNED STOCKHOLDER. IF NO DIRECTION IS GIVEN, THIS PROXY WILL BE VOTED FOR THE PRECEDING NOMINEES AND PROPOSAL. IF ANY NOMINEE DECLINES OR IS UNABLE TO SERVE AS A DIRECTOR, THEN THE PERSONS NAMED AS PROXIES SHALL HAVE FULL DISCRETION TO VOTE FOR ANY OTHER PERSON DESIGNATED BY THE BOARD OF DIRECTORS.**

Signature of Stockholder \_\_\_\_\_ Date: \_\_\_\_\_

Signature of Stockholder \_\_\_\_\_ Date: \_\_\_\_\_

**Note:** Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.