APRIA HEALTHCARE GROUP INC
Form 10-Q
November 09, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the period ended September 30, 2004

OR

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

Commission File Number: 1-14316

APRIA HEALTHCARE GROUP INC.
(Exact name of registrant as specified in its charter)

Delaware	**33-0488566**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
26220 Enterprise Court, Lake Forest, CA	**92630**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number: (949) 639-2000

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

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

As of November 4, 2004, there were outstanding 48,467,309 shares of the Registrant s common stock, par value $.001, which is the only class of common stock of the Registrant (not including 9,627,659 shares held in treasury).

APRIA HEALTHCARE GROUP INC.

FORM 10-Q

For the period ended September 30, 2004

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)
Condensed Consolidated Balance Sheets

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (unaudited)

APRIA HEALTHCARE GROUP INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

(dollars in thousands)	September 30, 2004	December 31, 2003
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 38,858	$ 160,553
Accounts receivable, less allowance for doubtful accounts of $42,761 and $38,531 at September 30, 2004 and December 31, 2003, respectively	223,862	196,413
Inventories, net	33,437	29,089
Deferred income taxes	27,759	27,108
Prepaid expenses and other current assets	24,796	16,172
TOTAL CURRENT ASSETS	348,712	429,335
PATIENT SERVICE EQUIPMENT, less accumulated depreciation of $411,266 and $392,297 at September 30, 2004 and December 31, 2003, respectively	229,172	209,551
PROPERTY, EQUIPMENT AND IMPROVEMENTS, net	49,231	50,192
DEFERRED INCOME TAXES	5,059	1,690
GOODWILL	454,222	330,532
INTANGIBLE ASSETS, less accumulated amortization of $7,490 and $7,294 at September 30, 2004 and December 31, 2003, respectively	10,762	7,356
DEFERRED DEBT ISSUANCE COSTS, net	7,487	9,339

	September 30,	December 31,
OTHER ASSETS	5,946	5,440
	$ 1,110,591	$ 1,043,435
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 60,085	$ 56,735
Accrued payroll and related taxes and benefits	51,574	43,312
Accrued insurance	8,246	9,854
Income taxes payable	14,991	13,310
Other accrued liabilities	57,680	35,363
Current portion of long-term debt	34,994	31,522
TOTAL CURRENT LIABILITIES	227,570	190,096
LONG-TERM DEBT, exclusive of current portion	466,649	469,241
DEFERRED INCOME TAXES	38,101	15,986
OTHER NON-CURRENT LIABILITIES	4,728	2,164
COMMITMENTS AND CONTINGENCIES (Note G)		
STOCKHOLDERS EQUITY		
Preferred stock, $.001 par value: 10,000,000 shares authorized; none issued	-	-
Common stock, $.001 par value: 150,000,000 shares authorized; 58,079,636 and 57,317,094 shares issued at September 30, 2004 and December 31, 2003, respectively; 48,451,977 and 51,107,538 outstanding at September 30, 2004 and December 31, 2003, respectively	58	57
Additional paid-in capital	434,422	414,220
Treasury stock, at cost; 9,627,659 and 6,209,556 shares at September 30, 2004 and December 31, 2003, respectively	(254,432)	(154,432)
Retained earnings	193,774	107,033
Accumulated other comprehensive loss	(279)	(930)
	373,543	365,948
	$ 1,110,591	$ 1,043,435

See notes to condensed consolidated financial statements.

APRIA HEALTHCARE GROUP INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share data)	**2004**	**2003**	**2004**	**2003**
Net revenues	$ 364,569	$ 346,323	$ 1,075,012	$ 1,024,676
Costs and expenses:				
Cost of net revenues:				
Product and supply costs	67,645	59,707	197,488	181,017
Patient service equipment depreciation	30,497	29,604	90,364	85,188
Nursing services	193	201	634	608
Other	3,641	3,617	11,331	10,317

	Three Months Ended September 30,		Nine Months Ended September 30,	
TOTAL COST OF NET REVENUES	101,976	93,129	299,817	277,130
Provision for doubtful accounts	12,268	12,507	38,548	38,223
Selling, distribution and administrative	200,619	189,748	582,496	558,235
Amortization of intangible assets	1,854	732	4,639	2,143
TOTAL COSTS AND EXPENSES	316,717	296,116	925,500	875,731
OPERATING INCOME	47,852	50,207	149,512	148,945
Interest expense, net	5,210	3,664	15,119	10,005
INCOME BEFORE TAXES	42,642	46,543	134,393	138,940
Income tax expense	12,807	17,686	47,652	52,845
NET INCOME	$ 29,835	$ 28,857	$ 86,741	$ 86,095
Basic net income per common share	$ 0.61	$ 0.55	$ 1.75	$ 1.59
Diluted net income per common share	$ 0.60	$ 0.54	$ 1.72	$ 1.57

See notes to condensed consolidated financial statements.

APRIA HEALTHCARE GROUP INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine Months Ended September 30,	
(dollars in thousands)	**2004**	**2003**
OPERATING ACTIVITIES		
Net income	$ 86,741	$ 86,095
Items included in net income not requiring cash:		
Provision for doubtful accounts	38,548	38,223
Depreciation and amortization	110,962	103,074
Amortization of deferred debt issuance costs	1,890	1,073
Deferred income taxes	19,977	17,224
Stock-based compensation and other	2,511	176
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Accounts receivable	(65,062)	(48,346)
Inventories, net	(2,578)	(1,370)
Prepaid expenses and other assets	(3,398)	(1,920)
Accounts payable, exclusive of outstanding checks	5,039	(6,658)
Accrued payroll and related taxes and benefits	8,262	10,001
Income taxes payable	1,286	6,424
Accrued expenses	(6,384)	(5,319)
NET CASH PROVIDED BY OPERATING ACTIVITIES	197,794	198,677
INVESTING ACTIVITIES		

	Nine Months Ended September 30,	
Purchases of patient service equipment and property, exclusive of effects of acquisitions	(111,890)	(116,544)
Proceeds from disposition of assets	159	419
Cash paid for acquisitions, including payments of deferred consideration	(116,121)	(88,791)
NET CASH USED IN INVESTING ACTIVITIES	(227,852)	(204,916)
FINANCING ACTIVITIES		
Proceeds from revolving credit facilities	20,000	15,700
Payments on revolving credit facilities	-	(15,700)
Payments on term loans	(19,313)	(12,875)
Proceeds from issuance of convertible senior notes	-	250,000
Payments on other long-term debt	(6,382)	(2,010)
Outstanding checks included in accounts payable and other	(1,689)	(5,785)
Capitalized debt issuance costs	(37)	(6,584)
Repurchases of common stock	(100,000)	(118,471)
Issuances of common stock	15,784	10,094
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(91,637)	114,369
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(121,695)	108,130
Cash and cash equivalents at beginning of period	160,553	26,383
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 38,858	$ 134,513

See notes to condensed consolidated financial statements.

APRIA HEALTHCARE GROUP INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE A CERTAIN SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying unaudited condensed consolidated financial statements include the accounts of Apria Healthcare Group Inc. (Apria or the company) and its subsidiaries. Intercompany transactions and accounts have been eliminated.

In the opinion of management, all adjustments, consisting of normal recurring accruals necessary for a fair presentation of the results of operations for the interim periods presented, have been reflected herein. The unaudited results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2003, included in the company s Annual Report on Form 10-K.

Certain amounts from prior periods have been reclassified to conform to the current period presentation.

Use of Accounting Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition and Concentration of Credit Risk: Revenues are recognized on the date services and related products are provided to patients and are recorded at amounts expected to be received under reimbursement arrangements with third-party payors, including private insurers, prepaid health plans, Medicare and Medicaid. Approximately 38% of the company s revenues are reimbursed under arrangements with Medicare and Medicaid. No other third-party payor group represents 10% or more of the company s revenues. The majority of the company s revenues are derived from fees charged for patient care under fee-for-service arrangements. Revenues derived from capitation arrangements represent less than 10% of total net revenues.

Due to the nature of the industry and the reimbursement environment in which Apria operates, certain estimates are required to record net revenues and accounts receivable at their net realizable values. Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available. Specifically, the complexity of many third-party billing arrangements and the uncertainty of reimbursement amounts for certain services from certain payors may result in adjustments to amounts originally recorded. Such adjustments are typically identified and recorded at the point of cash application, claim denial or account review.

Management performs periodic analyses to evaluate accounts receivable balances to ensure that recorded amounts reflect estimated net realizable value. Specifically, management considers, among other things, historical realization data, accounts receivable aging trends, other operating trends and relevant business conditions. Management also performs focused reviews of certain large and/or slow-paying payors. Due to continuing changes in the healthcare industry and with third-party reimbursement, it is possible that estimates could change in the near term, which could have an impact on operations and cash flows.

Accounts receivable are reduced by an allowance for doubtful accounts which provides for those accounts from which payment is not expected to be received, although services were provided and revenue was earned.

Recent Accounting Pronouncements: The Financial Accounting Standards Board (FASB) originally issued in January 2003 FASB Interpretation No. (FIN) 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51. The interpretation was subsequently revised in December 2003. FIN 46, as revised, requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity s activities or is entitled to receive a majority of the entity s residual returns or both. FIN 46 also requires certain disclosures about variable interest entities in which a company has a significant interest, regardless of whether consolidation is required. Application of FIN 46 is required for potential variable interest entities commonly referred to as special purpose entities for periods ending after December 15, 2003. Application of the provisions is required for all other variable interest entities by the end of the first reporting period that ends after March 15, 2004. Adoption of this interpretation did not have a material effect on the company s consolidated financial statements.

In April 2003, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. The statement is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. Adoption of this statement did not have a material effect on the company s consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. However, in November 2003, the FASB issued Staff Position No. 150-3, which indefinitely defers the effective date for certain provisions of the statement. Adoption of this statement did not have a material effect on the company s consolidated financial statements.

Stock-based Compensation: The company accounts for its stock-based compensation plans under the recognition and measurement principles of Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, and related interpretations. Apria has adopted the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123. For the nine-month period ended September 30, 2004, net income reflects compensation expense for restricted stock awards and restricted stock purchase rights accounted for in accordance with APB No. 25. Had compensation expense for all of the company s stock-based compensation awards been recognized based on the fair value recognition provisions of SFAS No. 123, Apria s net income and per share amounts would have been adjusted to the pro forma amounts indicated below.

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(in thousands, except per share data)	**2004**	**2003**	**2004**	**2003**
Net income as reported	$ 29,835	$ 28,857	$ 86,741	$ 86,095
Add: stock-based compensation expense included in reported net income, net of related tax effects	237	232	1,572	232
Deduct: total stock-based compensation expense determined for all awards under fair value-based method, net of related tax effects	(2,673)	(2,597)	(7,978)	(6,691)

	Three Months Ended September 30,		Nine Months Ended September 30,	
Pro forma net income	$ 27,399	$ 26,492	$ 80,335	$ 79,636
Basic net income per share:				
As reported	$ 0.61	$ 0.55	$ 1.75	$ 1.59
Pro forma	$ 0.56	$ 0.50	$ 1.62	$ 1.47
Diluted income per share:				
As reported	$ 0.60	$ 0.54	$ 1.72	$ 1.57
Pro forma	$ 0.55	$ 0.50	$ 1.60	$ 1.45

For purposes of the pro forma disclosure, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in the nine-month periods ended September 30, 2004 and 2003: risk-free interest rates of 3.02% and 2.85%, respectively; dividend yield of 0% for all periods; expected lives of 4.83 and 4.81 years, respectively; and volatility of 47% and 55%, respectively.

NOTE B BUSINESS COMBINATIONS

Apria periodically makes acquisitions of complementary businesses in specific geographic markets. The results of operations of the acquired companies are included in the accompanying consolidated income statements from the dates of acquisition. During the nine-month period ended September 30, 2004, cash paid for acquisitions was $116,121,000, which included deferred payments of $3,783,000 that were related to prior year acquisitions. At September 30, 2004, deferred consideration payable totaled $34,624,000 and is included on the consolidated balance sheet in other accrued liabilities.

During the nine-month period ended September 30, 2004, Apria acquired 26 companies comprised largely of home respiratory therapy businesses. Pending receipt of additional valuation information, amounts preliminarily allocated to goodwill, other intangible assets and patient service equipment were $123,968,000, $8,044,000 and $10,191,000, respectively. This allocation is inclusive of amounts not yet paid.

The following supplemental unaudited pro forma information presents the combined operating results of Apria and the businesses that were acquired by Apria during the nine-month period ended September 30, 2004, as if the acquisitions had occurred at the beginning of the periods presented. The pro forma information is based on the historical financial statements of Apria and those of the acquired businesses. Amounts are not necessarily indicative of the results that may have been obtained had the combinations been in effect at the beginning of the periods presented or that may be achieved in the future.

	Nine Months Ended September 30,	
(dollars in thousands, except per share data)	**2004**	**2003**
Net revenues	$ 1,128,063	$ 1,113,636
Net income	$ 92,631	$ 90,181
Basic net income per common share	$ 1.87	$ 1.66
Diluted net income per common share	$ 1.84	$ 1.65

NOTE C GOODWILL AND INTANGIBLE ASSETS

Apria accounts for intangible assets and goodwill under the initial recognition provisions of SFAS No. 141, Business Combinations, and the financial accounting and reporting provisions of SFAS No. 142, Goodwill and Other Intangible Assets. Goodwill and other intangible assets with indefinite lives are no longer amortized, but are tested for impairment annually, or more frequently if circumstances indicate that the possibility of impairment exists. If the carrying value of goodwill or an intangible asset exceeds its fair value, an impairment loss is recognized.

For the nine months ended September 30, 2004, the net change in the carrying amount of goodwill of $123,690,000 is the result of business combinations. Substantially all of the goodwill recorded in conjunction with business combinations completed during the periods presented is expected to be deductible for tax purposes.

Intangible assets, all of which are subject to amortization, consist of the following:

(dollars in thousands)		September 30, 2004			December 31, 2003		
	Average Life in Years	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Covenants not to compete	4.8	$ 14,254	$ (5,738)	$ 8,516	$ 11,244	$ (5,508)	$ 5,736
Trade names	2.0	1,295	(609)	686	2,067	(938)	1,129
Customer lists	< 1.0	2,703	(1,143)	1,560	1,339	(848)	491
		$ 18,252	$ (7,490)	$ 10,762	$ 14,650	$ (7,294)	$ 7,356

Amortization expense was $4,639,000 for the nine-month period ended September 30, 2004. Estimated amortization expense for the current year and each of the next five fiscal years ending December 31 is presented below:

Year Ending December 31,	*(dollars in thousands)*
2004	$ 6,594
2005	3,330
2006	2,130
2007	1,691
2008	1,233
2009	423

NOTE D LONG-TERM DEBT

At September 30, 2004, borrowings under the revolving credit facility were $20,000,000; outstanding letters of credit totaled $3,855,000; credit available under the revolving facility was $76,145,000; and Apria was in compliance with all of the financial covenants required by the credit agreement. The final maturity date for the $100,000,000 revolving credit facility is July 2006.

Hedging Activities: Apria utilizes interest rate swap agreements to moderate its exposure to interest rate fluctuations on its underlying variable rate long-term debt. Apria does not use derivative financial instruments for trading or other speculative purposes. Apria has four interest rate swap agreements with a total notional amount of $100,000,000 that fix an equivalent amount of its variable rate debt at rates ranging from 2.43% to 3.42% (before applicable margin). The terms of the swap agreements range from two to four years. The swap agreements are being accounted for as cash flow hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. Accordingly, the difference between the interest received and interest paid is reflected as an adjustment to interest expense. For the nine-month periods ended September 30, 2004 and 2003, Apria paid net settlement amounts of $1,175,000 and $1,485,000, respectively. At September 30, 2004, the aggregate fair value of the swap agreements was a liability of $449,000 and is reflected in the accompanying consolidated balance sheet in other accrued liabilities. Unrealized gains and losses on the fair value of the swap agreements are reflected, net of taxes, in other comprehensive loss (See Note E Stockholders Equity). Apria s exposure to credit loss under the swap agreements is limited to the interest rate spread in the event of counterparty non-performance.

NOTE E STOCKHOLDERS EQUITY

For the nine months ended September 30, 2004, changes to stockholders equity are comprised of the following amounts:

	(dollars in thousands)
Net income	$ 86,741
Proceeds from the exercise of stock options	15,784
Tax benefit related to the exercise of stock options	1,883
Compensatory stock options and awards granted	2,536
Other comprehensive gain, net of taxes	651
Repurchases of common stock	(100,000)
	$ 7,595

Net income and comprehensive income differ by unrealized gains or losses related to interest rate swap agreements, net of taxes. For the nine months ended September 30, 2004 and 2003, total comprehensive income was $87,392,000 and $86,015,000, respectively. For the three-month periods ended September 30, 2004 and 2003, total comprehensive income was $29,768,000 and $29,256,000, respectively.

On January 16, 2004, Apria prepaid $50,000,000 to repurchase 1,730,703 shares of its common stock at a strike price of $28.89 through an accelerated share repurchase program. The related contract, which had a scheduled settlement date of June 16, 2004, provided for cash or net share settlement at Apria s election. The repurchase of the shares required by the contract was completed on April 28, 2004 and the share price differential was settled in cash on June 7, 2004 for a total cost of $53,033,000. During the third quarter of 2004, the company purchased an additional 1,687,400 shares totaling $46,967,000, thereby achieving the share repurchase limit of $100,000,000, as authorized by the Board of Directors.

All repurchased shares are being held in treasury.

NOTE F INCOME TAXES

Income taxes for the nine months ended September 30, 2004 and 2003 have been provided at the effective tax rates expected to be applicable for the respective year.

State net operating loss carryforwards, that were previously expected to expire, will now be realizable due to a change in estimate of expected future period earnings. As a result, the effective state tax rate for 2004 will be lower than regular statutory rates.

At September 30, 2004, Apria had federal net operating loss carryforwards of $12,123,000, the utilization of which is limited to $5,017,000 per year under Internal Revenue Code section 382. Apria expects to utilize $5,017,000 of these net operating loss carryforwards in 2004. The remaining portion of the federal net operating loss carryforwards will expire unused at the end of 2004.

Apria utilized its remaining alternative minimum tax credit carryforward of $6,149,000 in 2003.

NOTE G COMMITMENTS AND CONTINGENCIES

As previously reported, since mid-1998 Apria has been the subject of an investigation conducted by the U.S. Attorney s office in Los Angeles and the U.S. Department of Health and Human Services. The investigation concerns the documentation supporting Apria s billing for services provided to patients whose healthcare costs are paid by Medicare and other federal programs. Apria is cooperating with the government and has responded to various document requests and subpoenas.

The investigation relates to two civil *qui tam* lawsuits against Apria filed under seal on behalf of the government. In August 2004 the government for the first time provided Apria with redacted copies of the complaints in these lawsuits on which the names of the plaintiffs, the courts and the dates instituted were blacked out. In general, both complaints allege that for an unspecified period of time commencing in 1995 Apria knowingly engaged in various schemes to defraud the government by submitting false claims for payment and by manipulating and falsifying documentation in support of such claims. The complaints do not quantify the alleged damages sought and do not identify any of the particular individuals, patient accounts or Apria facilities alleged to be involved in any improper billing. To date, the U.S. Attorney s office has not informed Apria of any decision to intervene in the *qui tam* actions; however, it could reach a decision with respect to intervention at any time.

During the past several years, Apria and representatives of the government have been analyzing and discussing the documentation underlying Apria s billings to the federal government for services provided by Apria from mid-1995 through 1998 to a sample of 300 patients selected by the government. Government representatives and counsel for the plaintiffs have asserted that, by a process of extrapolation from the 300 patient files in the sample to all of Apria s billings to the federal government during the sample period, Apria could have a very significant liability to the government under the False Claims Act.

Apria has acknowledged that there may be errors and omissions in supporting documentation affecting a portion of its billings. However, it believes that most of the alleged documentation errors and omissions should not give rise to any liability. Accordingly, Apria believes that most of the assertions made by the government and the *qui tam* plaintiffs are legally and factually incorrect and that Apria is in a position to assert numerous meritorious defenses.

Apria and government representatives are continuing to explore whether it will be possible to resolve this matter on a basis that would be considered fair and reasonable by all parties. Apria cannot provide any assurances as to the outcome of its discussions with the government, however, or as to the outcome of the *qui tam* litigation in the absence of a settlement. Management cannot estimate the possible loss or range of loss that may result from these proceedings and, therefore, has not recorded any related accruals.

If a judge, jury or administrative agency were to determine that false claims were submitted to federal healthcare programs or that there were significant overpayments by the government, Apria could face civil and administrative claims for refunds, sanctions and penalties for amounts that would be highly material to its business, results of operations and financial condition, including the exclusion of Apria from participation in federal healthcare programs.

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

NOTE H PER SHARE AMOUNTS

The following table sets forth the computation of basic and diluted per share amounts:

	Three Months Ended September 30,	Nine Months Ended September 30,
(in thousands, except per share data)	**2004**	