

APRIA HEALTHCARE GROUP INC

Form 10-Q

November 14, 2012

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2012

or

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

For the transition period from            to            .

Commission file number 333-168159

**APRIA HEALTHCARE GROUP INC.**

(Exact name of Registrant as specified in its charter)

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<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>33-0488566</b> (I.R.S. Employer Identification No.)
<b>26220 Enterprise Court</b>	
<b>Lake Forest, CA</b> (Address of principal executive offices)	<b>92630</b> (Zip Code)
<b>Registrant's telephone number, including area code: (949) 639-2000</b>	

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  No

Note: As a voluntary filer not subject to the filing requirements of Section 13 or 15(d) of the Exchange Act, the registrant has filed all reports pursuant to Section 13 or 15(d) as if the registrant was subject to such filing requirements.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

As of November 9, 2012, there were 100 shares of the issuer's common stock, par value \$0.01 per share, issued and outstanding.

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This quarterly report on Form 10-Q includes forward-looking statements regarding, among other things, our plans, strategies and prospects, both business and financial. These statements are based on the beliefs and assumptions of our management. Although we believe that our plans, intentions and expectations reflected in or suggested by these forward-looking statements are reasonable, we cannot assure you that we will achieve or realize these plans, intentions or expectations. Forward-looking statements are inherently subject to risks, uncertainties and assumptions. Generally, statements that are not historical facts, including statements concerning our possible or assumed future actions, business strategies, events or results of operations, are forward-looking statements. These statements may be preceded by, followed by or include the words believes, expects, anticipates, intends, plans, estimates or similar expressions.

Forward-looking statements are not guarantees of performance. You should not put undue reliance on these statements. You should understand that various important factors, in addition to those discussed elsewhere in this quarterly report on Form 10-Q, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in our forward-looking statements:

trends and developments affecting the collectability of accounts receivable;

government legislative and budget developments that could continue to affect reimbursement levels;

potential reductions in reimbursement rates by government and third-party payors;

the effectiveness of our operating systems and controls, systems implementation risks;

healthcare reform and the effect of federal and state healthcare regulations;

economic and political events, international conflicts and natural disasters;

acquisition-related risks; and

the items discussed under Risk Factors in this quarterly report on Form 10-Q.

All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements. We undertake no obligations to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

As used in this report, unless otherwise noted or the context otherwise requires, references to Company, we, us, and our are to Apria Healthcare Group Inc., a Delaware corporation, and its subsidiaries; references to Apria and the Issuer are to Apria Healthcare Group Inc., exclusive of its subsidiaries; references to Merger Sub are to Sky Merger Sub Corporation, a Delaware corporation; references to Holdings are to Apria Holdings LLC, a Delaware limited liability company, exclusive of its subsidiaries; references to Sky LLC are to Sky Acquisition LLC, a Delaware limited liability company, exclusive of its subsidiaries; references to Blackstone and the Sponsor are to Blackstone Capital Partners V L.P.; references to the Investor Group are, collectively, to Blackstone and certain funds affiliated with Blackstone, Dr. Norman C. Payson and certain other members of our management; and references to home medical equipment, durable medical equipment and DME are used synonymously. On October 28, 2008, the Company was acquired by private investment funds affiliated with the Sponsor via a merger of the Merger Sub with and into Apria (the Merger), with Apria being the surviving corporation following the Merger. As a result of the Merger, the Investment Group beneficially owns all of Apria's issued and outstanding common stock. The term Successor refers to the Company following the Merger and the term Predecessor refers to the Company prior to the Merger.



**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****APRIA HEALTHCARE GROUP INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	September 30, 2012	December 31, 2011
	(in thousands, except share data)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 15,528	\$ 29,096
Accounts receivable, less allowance for doubtful accounts of \$54,106 and \$53,934 at September 30, 2012 and December 31, 2011, respectively	362,710	337,212
Inventories	66,154	57,683
Deferred income taxes		168
Deferred expenses	3,533	3,681
Prepaid expenses and other current assets	13,799	23,927
<b>TOTAL CURRENT ASSETS</b>	<b>461,724</b>	<b>451,767</b>
PATIENT SERVICE EQUIPMENT, less accumulated depreciation of \$184,263 and \$176,526 at September 30, 2012 and December 31, 2011, respectively	184,935	166,769
PROPERTY, EQUIPMENT AND IMPROVEMENTS, NET	77,126	83,768
GOODWILL	258,725	258,725
INTANGIBLE ASSETS, NET	204,000	485,366
DEFERRED DEBT ISSUANCE COSTS, NET	33,975	44,636
OTHER ASSETS	13,053	11,513
<b>TOTAL ASSETS</b>	<b>\$ 1,233,538</b>	<b>\$ 1,502,544</b>
<b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 142,484	\$ 135,572
Accrued payroll and related taxes and benefits	76,585	69,217
Deferred income taxes	829	
Other accrued liabilities	100,200	66,694
Deferred revenue	28,511	28,649
Current portion of long-term debt	6,270	10,301
<b>TOTAL CURRENT LIABILITIES</b>	<b>354,879</b>	<b>310,433</b>
LONG-TERM DEBT, net of current portion	1,017,531	1,017,755
DEFERRED INCOME TAXES	93,656	200,225
INCOME TAXES PAYABLE AND OTHER NON-CURRENT LIABILITIES	48,512	49,480
<b>TOTAL LIABILITIES</b>	<b>1,514,578</b>	<b>1,577,893</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS DEFICIT</b>		
Common stock, \$0.01 par value: 1,000 shares authorized; 100 shares issued at September 30, 2012 and December 31, 2011		

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Additional paid-in capital	693,233	690,870
Accumulated deficit	(974,273)	(766,219)
<b>TOTAL STOCKHOLDERS DEFICIT</b>	<b>(281,040)</b>	<b>(75,349)</b>
	\$ 1,233,538	\$ 1,502,544

*See notes to unaudited condensed consolidated financial statements.*

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	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
(in thousands)				
<b>Net revenues:</b>				
Fee for service arrangements	\$ 562,867	\$ 542,391	\$ 1,675,930	\$ 1,572,304
Capitation	45,606	42,483	135,928	125,661
<b>TOTAL NET REVENUES</b>	<b>608,473</b>	<b>584,874</b>	<b>1,811,858</b>	<b>1,697,965</b>
<b>Costs and expenses:</b>				
<b>Cost of net revenues:</b>				
Product and supply costs	215,681	190,241	637,229	558,563
Patient service equipment depreciation	20,301	27,588	61,383	73,470
Home respiratory therapy services	6,650	6,726	20,957	18,829
Nursing services	10,422	10,677	32,354	31,204
Other	4,200	4,322	13,194	10,796
<b>TOTAL COST OF NET REVENUES</b>	<b>257,254</b>	<b>239,554</b>	<b>765,117</b>	<b>692,862</b>
Provision for doubtful accounts	13,495	14,511	46,143	51,353
Selling, distribution and administrative	307,131	307,810	933,390	907,508
Amortization of intangible assets	344	1,172	1,488	3,370
Non-cash impairment of intangible assets	280,000		280,000	
<b>TOTAL COSTS AND EXPENSES</b>	<b>858,224</b>	<b>563,047</b>	<b>2,026,138</b>	<b>1,655,093</b>
<b>OPERATING (LOSS) INCOME</b>	<b>(249,751)</b>	<b>21,827</b>	<b>(214,280)</b>	<b>42,872</b>
Interest expense	33,794	33,228	101,189	99,158
Interest income and other	(311)	176	(1,082)	(114)
<b>LOSS BEFORE TAXES</b>	<b>(283,234)</b>	<b>(11,577)</b>	<b>(314,387)</b>	<b>(56,172)</b>
Income tax benefit	(107,523)	(6,890)	(106,333)	(21,024)
<b>NET LOSS</b>	<b>\$ (175,711)</b>	<b>\$ (4,687)</b>	<b>\$ (208,054)</b>	<b>\$ (35,148)</b>

*See notes to unaudited condensed consolidated financial statements.*



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	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(in thousands)</b>	
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (208,054)	\$ (35,148)
Items included in net loss not requiring cash:		
Provision for doubtful accounts	46,143	51,353
Depreciation	84,935	100,095
Amortization of intangible assets	1,488	3,370
Non-cash impairment of intangible assets	280,000	
Amortization of deferred debt issuance costs	10,661	9,130
Deferred income taxes	(105,572)	(12,302)
Profit interest compensation	2,465	2,278
Loss on disposition of assets and other	14,949	12,906
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Accounts receivable	(71,642)	(94,432)
Inventories	(8,471)	