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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended September 30, 2021

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: 001-40053

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**Apria, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**82-4937641**  
(I.R.S. Employer  
Identification Number)

**7353 Company Drive**  
**Indianapolis, Indiana 46237**  
(Address of Principal Executive Offices)

**(800) 990-9799**  
(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Trading symbol(s)</u>	<u>Name of exchange on which registered</u>
Common Stock, \$0.01 par value per share	APR	The Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 1, 2021, there were 35,471,669 shares of the registrant's common stock outstanding.

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**Apria, Inc.**  
**Quarterly Report on Form 10-Q**  
**For the quarterly period ended September 30, 2021**

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**Apria, Inc.**  
**Quarterly Report on Form 10-Q**  
**For the quarterly period ended September 30, 2021**

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q (this “report”) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which involve certain known and unknown risks and uncertainties. Forward-looking statements include all statements that are not historical facts. In some cases, you can identify these forward-looking statements by the use of words such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “could,” “seeks,” “predicts,” “intends,” “trends,” “plans,” “estimates,” “anticipates” or the negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. Our actual results or outcomes may differ materially from those anticipated. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made. We assume no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Our actual results may differ significantly from any results expressed or implied by any forward-looking statements. A summary of the principal risk factors that might cause our actual results to differ from our forward-looking statements is set forth below. The following is only a summary of the principal risks that may materially adversely affect our business, financial condition and results of operations. This summary should be read in conjunction with the more complete discussion of the risk factors we face, which are set forth under Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 (the “2020 Form 10-K”) and Part II, Item 1A. “Risk Factors” in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021. Such risks and uncertainties include, but are not limited to, the following:

- the novel coronavirus (“COVID-19”) pandemic, including the emergence of variant strains of the virus, and the global attempt to contain it may harm our business, results of operations and ability to execute on our business plan;
- our capitation arrangements may prove unprofitable if actual utilization rates exceed our assumptions;
- our contracts with third-party healthcare payors, including government and commercial payors (“Payors”), including those with organizations that represent a significant portion of our business, are subject to renegotiation or termination which could result in a decrease in our revenue and profits;
- we depend on reimbursements by Payors, which could lead to delays and uncertainties in the reimbursement process;
- rising cost and constraints in the supply of materials, equipment, and labor, as well as shortage of drivers and clinicians could adversely impact our results of operations and cash flow and our ability to timely serve patients;
- possible changes in the mix of patients and products and services provided, as well as Payor mix and payment methodologies, could have a material adverse effect on our business, financial condition, results of operations, cash flow, capital resources and liquidity;
- recalls of any of our products, or the discovery of serious safety issues with our products could have a significant adverse impact on our business;
- if we are unable to provide consistently high quality of care, our business will be adversely impacted;

- our reliance on relatively few vendors for the majority of our patient equipment and supplies and excise taxes which are to be imposed on certain manufacturers of such items could adversely affect our ability to operate;
- the home healthcare industry is highly competitive and fragmented, with limited barriers to entry which may make it susceptible to vertical integration by manufacturers, Payors, providers (such as hospital systems) or disruptive new entrants;
- we may be adversely affected by consolidation among health insurers and other industry participants;
- there is an inherent risk of liability in the provision of healthcare services; damage to our reputation or our failure to adequately insure against losses, including from substantial claims and litigation, could have an adverse impact on our operations, financial condition, or prospects;
- the current economic uncertainty, deepening of any economic downturn, continued deficit spending by the federal government or state budget pressures may result in a reduction in payments and covered services;
- changes in home healthcare technology and/or product and therapy innovations may make the services we currently provide obsolete or less competitive;
- reductions in Medicare, Medicaid and commercial Payor reimbursement rates could have a material adverse effect on our results of operations and financial condition;
- if we fail to comply with applicable laws and regulations, we could suffer penalties or be required to make significant changes to our operations;
- we have been, are and could become the subject of federal and state investigations and compliance reviews;
- if we fail to maintain required licenses, certifications, or accreditation, or if we do not fully comply with requirements to provide notice to or obtain approval from regulatory authorities due to changes in our ownership structure or operation, it could adversely impact our operations;
- a cyber-attack, a security breach, or the improper disclosure or use of protected health information could cause a loss of confidential data, give rise to remediation and other expenses, expose us to liability under the Health Insurance Portability and Accountability Act of 1996, consumer protection, common law or other legal theories, subject us to litigation and federal and state governmental inquiries, damage our reputation, and otherwise be disruptive to our business; and
- affiliates of Blackstone Inc. (our “Sponsor”) are our current majority owners and their interests may conflict with ours or yours in the future.

We urge you to carefully consider the foregoing summary together with the risks discussed in Part I, Item 1A. “Risk Factors” of the 2020 Form 10-K, Part II, Item 1A. “Risk Factors” in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021, and Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this report.

#### **WEBSITE AND SOCIAL MEDIA DISCLOSURE**

We use our website ([www.apria.com](http://www.apria.com)) and our corporate Facebook ([www.facebook.com/ ApriaHealthcareCareers](https://www.facebook.com/ApriaHealthcareCareers)), LinkedIn ([www.linkedin.com/company/Apria-Healthcare](https://www.linkedin.com/company/Apria-Healthcare)), Vimeo ([www.vimeo.com/Apria](https://www.vimeo.com/Apria), [www.vimeo.com/ApriaCareers](https://www.vimeo.com/ApriaCareers), and [www.vimeo.com/ApriaMarketing](https://www.vimeo.com/ApriaMarketing)) and YouTube ([www.youtube.com/channel/UCQSJ0Hrf1LJGT3\\_L6TlDEFQ/featured](https://www.youtube.com/channel/UCQSJ0Hrf1LJGT3_L6TlDEFQ/featured)) accounts as channels of distribution of Company information. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following our press releases, Securities and Exchange Commission filings and public conference calls and webcasts. The contents of our website and social media channels are not, however, a part of this report.

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

**APRIA, INC.**  
**Condensed Consolidated Balance Sheets**  
(In thousands, except share and per share data)

	September 30, 2021	December 31, 2020
<b>ASSETS</b>		
(unaudited)		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 216,497	\$ 195,197
Accounts receivable	75,510	74,774
Inventories	8,066	6,680
Prepaid expenses and other current assets	24,033	24,003
<b>TOTAL CURRENT ASSETS</b>	<b>324,106</b>	<b>300,654</b>
PATIENT EQUIPMENT, less accumulated depreciation of \$366,772 and \$356,888 as of September 30, 2021 and December 31, 2020, respectively	216,756	223,972
PROPERTY, EQUIPMENT AND IMPROVEMENTS, NET	21,133	25,419
INTANGIBLE ASSETS, NET	66,391	61,497
OPERATING LEASE RIGHT-OF-USE ASSETS	61,652	57,869
GOODWILL	15,580	—
EQUITY METHOD INVESTMENT	3,600	—
DEFERRED INCOME TAXES, NET	835	18,258
NOTE RECEIVABLE, RELATED PARTY	811	—
OTHER ASSETS	18,254	17,315
<b>TOTAL ASSETS</b>	<b>\$ 729,118</b>	<b>\$ 704,984</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 108,653	\$ 116,886
Accrued payroll and related taxes and benefits	53,713	55,628
Other accrued liabilities	32,218	33,513
Deferred revenue	26,886	25,821
Current portion of operating lease liabilities	21,552	23,977
Current portion of long-term debt	31,250	20,833
<b>TOTAL CURRENT LIABILITIES</b>	<b>274,272</b>	<b>276,658</b>
LONG-TERM DEBT, less current portion	351,142	376,389
OPERATING LEASE LIABILITIES, less current portion	40,189	35,358
OTHER NONCURRENT LIABILITIES	40,384	42,924
<b>TOTAL LIABILITIES</b>	<b>705,987</b>	<b>731,329</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 8)</b>		
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Preferred stock, \$0.01 par value: 100,000,000 authorized; no shares issued as of September 30, 2021 and February 10, 2021 (Note 1)		
Common stock, \$0.01 par value: 1,000,000,000 authorized; 35,400,884 and 35,210,915 shares issued and outstanding as of September 30, 2021 and February 10, 2021, respectively (Note 1)	354	—
Additional paid-in capital	955,283	954,087
Accumulated deficit	(932,506)	(980,432)
<b>TOTAL STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>23,131</b>	<b>(26,345)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>\$ 729,118</b>	<b>\$ 704,984</b>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**APRIA, INC.**  
**Condensed Consolidated Statements of Income**  
(In thousands, except share and per share data)  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net revenues:				
Fee-for-service arrangements	\$ 229,293	\$ 220,446	\$ 676,814	\$ 646,630
Capitation	57,904	56,314	171,936	168,298
<b>TOTAL NET REVENUES</b>	<b>287,197</b>	<b>276,760</b>	<b>848,750</b>	<b>814,928</b>
Costs and expenses:				
Cost of net revenues:				
Product and supply costs	48,809	45,192	152,723	141,563
Patient equipment depreciation	24,746	25,104	75,631	75,840
Home respiratory therapists costs	4,023	3,986	12,345	12,848
Other	4,284	4,417	12,829	13,669
<b>TOTAL COST OF NET REVENUES</b>	<b>81,862</b>	<b>78,699</b>	<b>253,528</b>	<b>243,920</b>
Selling, distribution and administrative	176,372	184,674	522,935	534,110
<b>TOTAL COSTS AND EXPENSES</b>	<b>258,234</b>	<b>263,373</b>	<b>776,463</b>	<b>778,030</b>
<b>OPERATING INCOME</b>	<b>28,963</b>	<b>13,387</b>	<b>72,287</b>	<b>36,898</b>
Interest expense	2,938	1,117	8,882	4,047
Interest income	(51)	(74)	(142)	(451)
Gain from derecognition of nonfinancial asset	(3,994)	—	(3,994)	—
<b>INCOME BEFORE INCOME TAXES</b>	<b>30,070</b>	<b>12,344</b>	<b>67,541</b>	<b>33,302</b>
Income tax expense	7,264	6,644	19,615	13,034
<b>NET INCOME</b>	<b>\$ 22,806</b>	<b>\$ 5,700</b>	<b>\$ 47,926</b>	<b>\$ 20,268</b>

	Three Months Ended September 30, 2021	February 10, 2021 through September 30, 2021
Basic and diluted earnings per share:		
Net income attributable to common stockholders	\$ 22,806	\$ 46,387
Weighted average common shares outstanding:		
Basic	35,314,445	35,262,700
Diluted	38,210,958	38,077,019
Net income per common share:		
Basic	\$ 0.65	\$ 1.32
Diluted	\$ 0.60	\$ 1.22

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**APRIA, INC.**  
**Condensed Consolidated Statements of Stockholders' Equity (Deficit)**  
(In thousands, except share data)  
(Unaudited)

	Three Months Ended						
	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
<b>Balance as of June 30, 2021</b>	—	\$ —	35,256,256	\$ 353	\$ 956,632	\$ (955,312)	\$ 1,673
Distributions	—	—	—	—	(96)	—	(96)
Stock-based compensation	—	—	—	—	1,529	—	1,529
Common stock issued upon exercise of stock appreciation rights, net of shares withheld for tax	—	—	144,628	1	(2,782)	—	(2,781)
Net income	—	—	—	—	—	22,806	22,806
<b>Balance as of September 30, 2021</b>	—	\$ —	35,400,884	\$ 354	\$ 955,283	\$ (932,506)	\$ 23,131

  

	Nine Months Ended						
	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount			
<b>Balance as of December 31, 2020</b>	—	\$ —	—	\$ —	\$ 954,087	\$ (980,432)	\$ (26,345)
IPO Transactions (Note 1)	—	—	35,210,915	352	(352)	—	—
Distributions	—	—	—	—	(589)	—	(589)
Stock-based compensation	—	—	—	—	6,030	—	6,030
Common stock issued upon exercise of stock appreciation rights, net of shares withheld for tax	—	—	189,969	2	(3,893)	—	(3,891)
Net income	—	—	—	—	—	47,926	47,926
<b>Balance as of September 30, 2021</b>	—	\$ —	35,400,884	\$ 354	\$ 955,283	\$ (932,506)	\$ 23,131

  

	Three Months Ended						
	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
<b>Balance as of June 30, 2020</b>	—	\$ —	—	\$ —	\$ 1,162,031	\$ (1,012,003)	\$ 150,028
Stock-based compensation	—	—	—	—	511	—	511
Net income	—	—	—	—	—	5,700	5,700
<b>Balance as of September 30, 2020</b>	—	\$ —	—	\$ —	\$ 1,162,542	\$ (1,006,303)	\$ 156,239

  

	Nine Months Ended						
	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
<b>Balance as of December 31, 2019</b>	—	\$ —	—	\$ —	\$ 1,161,087	\$ (1,026,571)	\$ 134,516
Stock-based compensation	—	—	—	—	1,455	—	1,455
Net income	—	—	—	—	—	20,268	20,268
<b>Balance as of September 30, 2020</b>	—	\$ —	—	\$ —	\$ 1,162,542	\$ (1,006,303)	\$ 156,239

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**APRIA, INC.**  
**Condensed Consolidated Statements of Cash Flows**  
(In thousands)  
(Unaudited)

	Nine Months Ended September 30,	
	2021	2020
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 47,926	\$ 20,268
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	85,400	86,484
Amortization of intangible assets	1,081	431
Non-cash lease expense	20,170	20,416
Deferred income taxes	17,423	12,149
Stock-based compensation	6,030	1,455
Amortization of deferred debt issuance costs	778	370
Loss on sale and dispositions of patient equipment and other	5,040	3,318
Gain from derecognition of nonfinancial asset	(3,994)	—
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(736)	12,294
Inventories	(491)	432
Prepaid expenses and other assets	(790)	(7,567)
Accounts payable	(2,765)	(17,711)
Accrued payroll and related taxes and benefits	(1,915)	616
Operating lease liabilities	(21,547)	(19,300)
Deferred revenue	1,065	1,317
Legal reserve	1,250	32,525
Accrued expenses and other	(5,103)	11,442
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>148,822</b>	<b>158,939</b>
<b>INVESTING ACTIVITIES</b>		
Purchases of patient equipment and property, equipment and improvements	(87,509)	(85,847)
Proceeds from sale of patient equipment and other	12,508	13,315
Preferred distribution from equity method investment	3,000	—
Issuance of note receivable, related party	(811)	—
Cash paid for acquisitions	(25,305)	—
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(98,117)</b>	<b>(72,532)</b>
<b>FINANCING ACTIVITIES</b>		
Payments on asset financing	(9,590)	(17,223)
Payments on debt	(15,625)	(3,750)
Distribution payments	(400)	—
Payments for tax withholdings from equity-based compensation activity	(3,790)	—
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(29,405)</b>	<b>(20,973)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>21,300</b>	<b>65,434</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>195,197</b>	<b>74,691</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 216,497</b>	<b>\$ 140,125</b>

SUPPLEMENTAL DISCLOSURES—See [Note 4](#) – Debt and [Note 6](#) – Income Taxes for a discussion of cash paid for interest and income taxes, respectively.

NON-CASH INVESTING AND FINANCING TRANSACTIONS—Purchases of patient equipment and property, equipment and improvements exclude purchases that remain unpaid at the end of the respective period. Such amounts are included in the following period’s purchases. Unpaid purchases were \$49.0 million and \$55.1 million as of September 30, 2021 and December 31, 2020, respectively. Unpaid purchases include \$13.5 million and \$15.7 million of patient equipment and property, equipment and improvements acquired under extended payment terms as of September 30, 2021 and December 31, 2020, respectively. See [Note 7](#) - Leases for a discussion of right-of-use assets obtained in exchange for new operating lease liabilities. The Company made a non-cash contribution of software and other intellectual property (“IP”) to a joint venture with a fair value of \$9.0 million as of September 30, 2021. See [Note 1](#) – Summary of Significant Accounting Policies for a discussion of the equity method investment. See [Note 2](#) - Acquisitions for a discussion of unpaid contingent consideration in connections with an acquisition.

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**APRIA, INC.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Dollars in thousands, unless otherwise stated)**  
**(Unaudited)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**—The accompanying unaudited condensed consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and are presented in U.S. dollars. These unaudited condensed consolidated financial statements include the accounts of Apria, Inc. (the “Company” or “Apria”) and its subsidiaries. The Company had no items of other comprehensive income; as such, its comprehensive income is the same as the net income for all periods presented. Intercompany transactions and accounts have been eliminated in consolidation. The unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all normal recurring adjustments necessary for the fair statement of the consolidated results for these periods. Interim period results are not necessarily indicative of the results that may be expected for the full fiscal year.

In connection with the completion of the Company’s initial public offering (the “IPO” or “offering”), the Company underwent a reorganization transaction (see Company Background—Initial public offering) and Apria Healthcare Group Inc. (“Apria Healthcare Group”) became an indirect wholly-owned subsidiary of the Company on February 10, 2021. As a result of the reorganization transaction, the Company directly or indirectly owns all of the equity interests in Apria Healthcare Group and is the holding company of the Company’s business. The merger was accounted for as a reorganization of entities under common control. As a result, the consolidated financial statements of the Company recognize the assets and liabilities received in the merger at their historical carrying amounts as reflected in the historical consolidated financial statements of Apria Healthcare Group, the accounting predecessor. Furthermore, prior to the offering, the Company’s business was conducted through Apria Healthcare Group, which did not have a common capital structure with Apria, Inc. and therefore, the Company has not presented the historical capital structure of Apria Healthcare Group within the financial statements. As such, the Company computed earnings per share (“EPS”) for the period the Company’s common stock was outstanding during 2021, referred to as the Post-IPO period. The Company has defined the Post-IPO period as February 10, 2021, the effective date of the pre-IPO reorganization and the completion of the offering, through September 30, 2021. See below for a discussion of the reorganization transaction and EPS calculations.

**Company Background**—Apria, Inc., a Delaware corporation formed on March 22, 2018, is the financial reporting entity following the Company’s IPO in February 2021.

The Company operates in the home healthcare segment of the healthcare industry, providing a variety of clinical and administrative support services and related products and supplies, most of which are prescribed by a physician as part of a care plan. Essentially all products and services offered by the Company are provided through the Company’s network of approximately 300 branch, distribution and other locations, which are located throughout the United States. The Company provides services and products in one operating segment: home respiratory therapy/home medical equipment. The Company provides patients in their homes with products and services which are primarily paid for by a third-party payor, such as Medicare, Medicaid, a managed care plan or another third-party insurer. Sales are primarily derived from referral sources such as hospital discharge planners, medical groups or independent physicians.

**Initial public offering**— In February 2021, the Company completed an underwritten offering (in which an entity associated with Blackstone Inc. (the “selling stockholder”) sold an aggregate of 8,625,000 shares of common stock, including 1,125,000 shares sold pursuant to the full exercise of the underwriters’ option to purchase additional shares. The Company did not receive any proceeds from the shares sold by the selling stockholder and the Company incurred offering related expenses of approximately \$6.0 million, which were incurred and paid on the Company’s behalf prior to the offering by Apria Healthcare Group.

In connection with the completion of the offering, the Company underwent a reorganization transaction. On February 10, 2021, a newly formed indirect subsidiary of the Company merged with and into Apria Healthcare Group, with Apria Healthcare Group surviving. As a result, Apria Healthcare Group became an indirect wholly-owned subsidiary of the Company. The Company's stockholders who previously held their ownership interest prior to the IPO through Apria Holdings LLC ("Holdings") (as the 100% direct owner of Apria Healthcare Group) received an aggregate of 35,210,915 shares of newly issued common stock of the Company with a par value of \$0.01 per share.

In connection with the IPO, the Company's certificate of incorporation (the "Charter") and bylaws were each amended and restated, effective on February 10, 2021. The Charter authorizes 1,000,000,000 shares of common stock with a par value of \$0.01 per share. Each share of common stock is entitled to one vote per share on all matters on which stockholders are entitled to vote generally, including the election or removal of directors. The Charter also authorizes 100,000,000 shares of preferred stock, par value \$0.01 per share, of which there were no shares of preferred stock issued or outstanding immediately after the IPO or as of September 30, 2021.

**Equity Method Investment**— On August 16, 2021, the Company and a group of investors that includes the American Association for Homecare, VGM Group, Inc., AdaptHealth, LLC., Lincare Inc. and Rotech Healthcare Inc. entered into a joint venture agreement to form DMEscripts LLC, ("JV") an independent e-prescribe company dedicated to improving the patient, prescriber and provider experience by eliminating inefficiencies and reducing paperwork. The Company contributed IP in exchange for a 40% membership interest in the JV, 50% of which is a nonvoting interest. The Company accounted for the contribution of the IP in accordance with Accounting Standards Codification ("ASC") No. 610- 20, *Gains and Losses from the Derecognition of Nonfinancial Assets*. The Company's ownership interest in the JV is a non-managing interest. The Company determined that the JV was a variable interest entity, but does not consolidate the JV because the Company was not the primary beneficiary. The Company accounts for its unconsolidated membership interest in the JV in accordance with the equity method of accounting because it exerts significant influence over but does not control the JV. Under the equity method of accounting, contributions of non-financial assets to unconsolidated joint ventures are recorded at fair value and adjusted for cash contributions, distributions received, allocations of income or loss, and other adjustments, as appropriate. There is no difference between the carrying amount of the investment and the underlying equity interest in net assets. All capital contributions and distributions of earnings from the JV are made on a pro rata basis in proportion to each member's equity interest percentage. The Company commenced recording its allocated portion of profit or losses beginning as of September 1, 2021, with respect to its 40% membership interest in the JV. The Company received a preferred distribution of \$3.0 million and has the potential to receive an additional \$3.0 million if certain performance metrics are achieved within two years ("Breakeven Performance").

In connection with the formation of the JV, the Company entered into a promissory note that evidences a line of credit ("LOC") pursuant to a loan and security agreement ("JV Loan Agreement"), to which the Company has agreed to provide up to \$3.0 million in debt funding to the JV. In accordance with the JV Loan Agreement, the LOC bears interest at the rate of 7.5% per annum. The LOC calls for monthly interest only payments until the sooner of August 16, 2025 or the borrower achieving Breakeven Performance, at which time the remaining outstanding principal amount is amortized in equal monthly installments over five years. Amounts due under the LOC may be prepaid at any time. As of September 30, 2021, the outstanding balance was \$0.8 million under the LOC which was recorded as a note receivable, related party on the unaudited condensed consolidated balance sheet.

**Business Combinations**—The Company's acquisitions have been accounted for using the purchase method of accounting under ASC 805, *Business Combinations* ("ASC 805"). The Company accounts for all transactions and events in which it obtains control over a business under ASC 805 by establishing the acquisition date and recognizing the fair value of all assets acquired and liabilities assumed. The Company's acquisitions have historically been made at prices above the fair value of identifiable net assets, resulting in goodwill.

While the Company uses its best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business acquisition date, the estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the purchase price allocation period, which is generally one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. For changes in the valuation of intangible assets between the

preliminary and final purchase price allocation, the related amortization is adjusted in the period it occurs. Subsequent to the purchase price allocation period, any adjustment to assets acquired or liabilities assumed is included in operating results in the period in which the adjustment is determined.

**Use of Accounting Estimates**—The preparation of the unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Among the significant estimates affecting the unaudited condensed consolidated financial statements are those related to revenue recognition and the resulting accounts receivable, self-insurance reserves, long-lived assets, stock-based compensation, valuation of acquired intangible assets and goodwill, legal reserves and income taxes.

**Fee-for-Service Net Revenues**—Revenues are recognized under fee-for-service arrangements for equipment the Company rents to patients and sales of equipment, supplies and other items the Company sells to patients.

Rental and sale net revenues under fee-for-service arrangements disaggregated by each core service line item were:

(dollars in thousands)	Three Months Ended September 30,					
	2021			2020		
	Rental	Sale	Total Fee-For-Service	Rental	Sale	Total Fee-For-Service
Home respiratory therapy	\$ 104,262	\$ 703	\$ 104,965	\$ 100,231	\$ 573	\$ 100,804
Obstructive sleep apnea treatment	24,347	70,292	94,639	21,558	68,831	90,389
Negative pressure wound therapy	6,833	834	7,667	7,702	416	8,118
Other equipment and services	10,437	11,585	22,022	10,366	10,769	21,135
<b>Total</b>	<b>\$ 145,879</b>	<b>\$ 83,414</b>	<b>\$ 229,293</b>	<b>\$ 139,857</b>	<b>\$ 80,589</b>	<b>\$ 220,446</b>
	63.6 %	36.4 %	100.0 %	63.4 %	36.6 %	100.0 %

(dollars in thousands)	Nine Months Ended September 30,					
	2021			2020		
	Rental	Sale	Total Fee-For-Service	Rental	Sale	Total Fee-For-Service
Home respiratory therapy	\$ 306,321	\$ 2,037	\$ 308,358	\$ 294,874	\$ 2,654	\$ 297,528
Obstructive sleep apnea treatment	68,132	214,247	282,379	63,285	199,564	262,849
Negative pressure wound therapy	20,650	2,989	23,639	21,324	1,605	22,929
Other equipment and services	29,751	32,687	62,438	30,530	32,794	63,324
<b>Total</b>	<b>\$ 424,854</b>	<b>\$ 251,960</b>	<b>\$ 676,814</b>	<b>\$ 410,013</b>	<b>\$ 236,617</b>	<b>\$ 646,630</b>
	62.8 %	37.2 %	100.0 %	63.4 %	36.6 %	100.0 %

**Rental revenues**—Revenue generated from equipment that the Company rents to patients is recognized over the noncancelable rental period, typically one month, and commences on delivery of the equipment to the patients. The Company evaluates the portfolio of lease contracts at lease commencement and the start of each monthly renewal period to determine if it is reasonably certain that the monthly renewal or purchase options would be exercised. The exercise of monthly renewal or purchase options by a patient has historically not been reasonably certain to occur at lease commencement or subsequent monthly renewal.

Revenues are recorded at amounts estimated to be received under reimbursement arrangements with third-party payors, including private insurers, prepaid health plans, Medicare, Medicaid and patients. Rental revenue, less estimated adjustments, is recognized as earned on a straight-line basis over the noncancellable lease term. Rental of patient equipment is billed on a monthly basis beginning on the date the equipment is delivered. Since deliveries can occur on any day during a month, the amount of billings that apply to the next month are deferred.

The Company's lease agreements generally contain lease and non-lease components. Non-lease components primarily relate to supplies. The Company allocates the transaction price to the separate lease and non-lease components that qualify as performance obligations using the stand-alone selling price.

**Sale revenues**—Revenue related to sales of equipment and supplies is recognized on the date of delivery as this is when control of the promised goods is transferred to patients and is presented net of applicable sales taxes. Revenues are recorded only to the extent it is probable that a significant reversal will not occur in the future as amounts may include implicit price concessions under reimbursement arrangements with third-party payors, including private insurers, prepaid health plans, Medicare, Medicaid and patients. The Company determines the sales transaction price based on contractually agreed-upon rates, adjusted for estimates of variable consideration. The Company uses the expected value method in determining the variable consideration as part of determining the sales transaction price using historical reimbursement experience, historical sales returns, and other operating trends. Payment terms and conditions vary by contract. The timing of revenue recognition, billing, and cash collection generally results in billed and unbilled accounts receivable.

**Capitation Revenues**—Revenues are recognized under capitation arrangements with third-party payors for services and equipment for which the Company stands ready to provide to the members of these payors without regard to the actual services provided. The stand-ready obligation generally extends beyond one year. Revenue is recognized over the month that the members are entitled to healthcare services using the contractual rate for each covered member. The actual number of covered members may vary each month. As a practical expedient, no disclosures have been made related to the amount of variable consideration expected to be recognized in future periods under these capitation arrangements. Capitation payments are typically received in the month members are entitled to healthcare services. Contracts with a single national payor constituted 86% of total capitation revenues in the three and nine months ended September 30, 2021 and 2020.

**Concentration of Credit Risk**—Revenues reimbursed under arrangements with Medicare and Medicaid were approximately 22% and 1%, respectively, of total net revenues for the three months ended September 30, 2021 and 21% and 1%, respectively, of total net revenues for the nine months ended September 30, 2021. Revenues reimbursed under arrangements with Medicare and Medicaid were approximately 21% and 1%, respectively, of total net revenues for the three and nine months ended September 30, 2020. Contracts with two national payors each constituted 23% and 12%, of total net revenues for the three months ended September 30, 2021 and 23% and 11% of total net revenues for the nine months ended September 30, 2021. Contracts with two national payors each constituted 23% and 11% of total net revenues for the three and nine months ended September 30, 2020. No other payors represented more than 10% of the Company's total net revenues in each of the three and nine months ended September 30, 2021 and September 30, 2020. As of September 30, 2021 and December 31, 2020, Medicare represented greater than 10% of net accounts receivable.

**Cash and Cash Equivalents**—Cash is maintained with various financial institutions located throughout the United States. Cash account balances may be more than the amounts insured by the Federal Deposit Insurance Corporation; however, management believes the risk of loss to be minimal based on the credit standing of these institutions and has not experienced any losses on its cash and cash equivalents to date. Management considers all highly liquid instruments purchased with an original maturity of less than three months to be cash equivalents.

**Accounts Receivable**—Included in accounts receivable are earned but unbilled receivables of \$15.9 million and \$13.1 million as of September 30, 2021 and December 31, 2020, respectively. Delays ranging from a day up to several weeks between the date of service and billing can occur due to delays in obtaining certain required payor-specific documentation from internal and external sources. Earned but unbilled receivables are aged from date of service and are considered in the analysis of historical performance and collectability.

Due to the nature of the industry and the reimbursement environment in which the Company operates, certain estimates are required to record total 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 historical realization data, accounts receivable aging trends, other operating trends, and the extent of contracted business and business combinations. Also considered

are relevant business conditions such as governmental and managed care payor claims processing procedures and system changes.

Additionally, focused reviews of certain large and/or problematic payors are performed. Due to continuing changes in the healthcare industry and third-party reimbursement, it is possible that management's estimates could change in the near term, which could have an impact on operations and cash flows.

The Company records a reserve for expected credit losses as part of net rental revenue adjustments in order to report rental revenue at an expected collectable amount based on the total portfolio of operating lease receivables for which collectability has been deemed probable.

**Inventories**—Inventories are stated at the lower of cost (approximate costs determined on the first-in, first-out basis) or net realizable value and consist primarily of respiratory supplies and items used in conjunction with patient equipment.

**Patient Equipment**—Patient equipment is stated at cost less depreciation and reserves for non-recoverable and obsolete patient equipment. Patient equipment consists of medical equipment rented to patients on a month-to-month basis. Depreciation is provided using the straight-line method over the estimated useful lives of the equipment, which range from 1 to 10 years. Patient equipment depreciation is classified in the Company's unaudited condensed consolidated statements of income within cost of net revenues as the equipment is rented to patients as part of the Company's primary operations. Depreciation expense for patient equipment was \$24.7 million and \$25.1 million for the three months ended September 30, 2021 and 2020, respectively, and \$75.6 million and \$75.8 million for the nine months ended September 30, 2021 and 2020, respectively. The reserves for non-recoverable and obsolete patient equipment were \$3.8 million and \$3.1 million as of September 30, 2021 and December 31, 2020, respectively.

Patient equipment is generally placed for rent; however, it could also be sold to customers. Once the rented equipment is returned to the Company, patient equipment is assessed and repaired as necessary. Patient equipment is typically leased to subsequent patients if its condition is suitable. Upon a sale, the Company records the proceeds of the sale within net revenues and the costs related to the carrying net book value as other costs within cost of net revenues in the Company's unaudited condensed consolidated statements of income.

Given rental income is generated from such products, purchases of patient equipment are considered an investing activity when paid soon before or after purchase, while other payments made are considered a financing activity within the unaudited condensed consolidated statements of cash flows. Certain unpaid purchases are secured by a security interest in \$1.8 million and \$5.1 million of patient equipment as of September 30, 2021 and December 31, 2020, respectively. The net loss from the sale and disposition of patient equipment is reported as an adjustment to net income within cash provided by operating activities in the unaudited condensed consolidated statements of cash flows.

**Property, Equipment and Improvements**—Property, equipment and improvements are stated at cost less depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 1 to 15 years or, for leasehold improvements, the shorter of the useful life of the asset or the remaining life of the related lease.

**Capitalized Software**—Capitalized software costs related to internally developed and purchased software are included in property, equipment and improvements in the unaudited condensed consolidated balance sheets and are amortized using the straight-line method over the estimated useful lives of the assets, which range from three to five years. Capitalized costs include direct costs of materials and services incurred in developing or obtaining internal-use software or cloud computing software and payroll and benefit costs for employees directly involved in the development of internal-use software or cloud computing software. Capitalization of such costs ceases when the project is substantially complete and ready for its intended purpose unless the enhancement adds new functionality. Costs incurred during the preliminary and post-implementation stages, as well as software maintenance and training costs, are expensed in the period in which they are incurred. Additions to capitalized internally developed software totaled \$2.6 million and \$2.0 million for the three months ended September 30, 2021 and 2020, respectively, and \$5.6 million and \$3.8 million for the nine months ended September 30, 2021 and 2020, respectively. Amortization expense for internally developed

software was \$1.3 million and \$1.4 million for the three months ended September 30, 2021 and 2020, respectively, and \$3.7 million and \$4.4 million for the nine months ended September 30, 2021 and 2020, respectively.

**Goodwill, Indefinite-Lived Intangible Assets and Long-Lived Assets**—Goodwill and indefinite-lived intangible assets are not amortized but instead tested at least annually for impairment or more frequently when events or changes in circumstances indicate that the assets might be impaired. The Company performs the annual test for impairment for goodwill and indefinite-lived intangible assets as of the first day of the fourth quarter.

The Company will first assess qualitative factors to determine whether it is more likely than not that the fair value is less than its carrying amount. If, based on a review of qualitative factors, it is more likely than not that the fair value is less than its carrying amount, the Company will use a quantitative approach, and calculate the fair value and compare it to its carrying amount. If the fair value exceeds the carrying amount, there is no indication of impairment. If the carrying amount exceeds the fair value, an impairment loss is recorded equal to the difference.

Long-lived assets, including property and equipment and purchased definite-lived intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Significant judgment is required in determining whether a potential indicator of impairment of long-lived assets exists and in estimating future cash flows for any necessary impairment tests. Recoverability of assets to be held and used is measured by the comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such an asset is considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Impairment charges related to goodwill, indefinite-lived intangible assets or long-lived assets were not material for the three and nine months ended September 30, 2021 and 2020.

**Fair Value of Financial Instruments**—Management is required to disclose the estimated fair value of certain assets and liabilities of financial instruments. Financial instruments are generally defined as cash, evidence of ownership interest in an entity or a contractual obligation that both conveys to one entity a right to receive cash or other financial instruments from another entity and imposes on the other entity the obligation to deliver cash or other financial instruments to the first entity. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair value due to their short maturity. The carrying amounts of the Company's long-term debt, including the Term Loan A Facility (the "TLA") and Revolving Credit Facility (the "Revolver"), as of September 30, 2021, approximate fair value due to the variable rate nature of the agreements. All debt classifications represent Level 2 fair value measurements.

**Leases**—The Company determines if an arrangement is a lease at commencement and performs an evaluation to determine whether the lease should be classified as an operating or finance lease. Operating leases are included in operating lease right-of-use ("ROU") assets, current portion of operating lease liabilities and operating lease liabilities, less current portion, on the unaudited condensed consolidated balance sheets. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and the related liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate ("IBR") based on the information available at the lease commencement date in determining the present value of future lease payments. The Company uses market rates from recent secured financing in its determination of the IBR.

The operating lease ROU asset also includes any lease payments made to the lessor at or before the commencement date and is adjusted by any lease incentives received. Variable lease payments are not included in the operating lease liability as they cannot be reasonably estimated and are recognized in the period in which the obligation for those payments is incurred. Lease terms may include options to extend or terminate the lease and are included only when it is reasonably certain that the Company will exercise that option. For all asset classes, leases with a lease term of twelve months or less at the lease commencement date are not recorded on the unaudited condensed consolidated

balance sheets, as permitted by the short-term lease exception. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The Company does not have any material subleases. The Company does not have any leases classified as a finance leasing arrangement. As such, all leases are classified as operating leases. See further discussion at [Note 7 – Leases](#).

**Product and Supply Costs**—Product and supply costs presented within total cost of net revenues are comprised primarily of the cost of supplies, equipment and accessories provided to patients.

**Contract Costs**—The Company pays sales commissions on fee-for-service arrangements in an effort to increase the volume of serviced patients. The Company elected to use the practical expedient to expense sales commissions as incurred since the amortization period would otherwise be less than one year. These costs are included in selling, distribution and administrative (“SD&A”) expenses in the unaudited condensed consolidated statements of income.

**Home Respiratory Therapists Costs**—Home respiratory therapists costs presented within total cost of net revenues are comprised primarily of employee salary and benefit costs or contract fees paid to respiratory therapists and other related professionals who are deployed to service a patient. Home respiratory therapy personnel are also engaged in a number of administrative and marketing tasks and, accordingly, these costs are classified within SD&A expenses and were \$3.6 million and \$3.3 million for the three months ended September 30, 2021 and 2020, respectively, and \$10.3 million and \$11.1 million for the nine months ended September 30, 2021 and 2020, respectively.

**Distribution Expenses**—Distribution expenses totaled \$32.1 million and \$27.6 million for the three months ended September 30, 2021 and 2020, respectively, and \$94.6 million and \$87.0 million for the nine months ended September 30, 2021 and 2020, respectively. Such expense represents the cost incurred to coordinate and deliver products and services to the patients. Included in distribution expenses are leasing, maintenance, licensing and fuel costs for the vehicle fleet; salaries and other costs related to drivers and dispatch personnel; and amounts paid to courier and other outside shipping vendors. Such expenses fall within the definition of “shipping and handling” costs and are classified within SD&A expenses and may not be comparable to other companies.

**Self-Insurance**—Coverage for certain employee medical claims and benefits, as well as workers’ compensation, professional and general liability, and vehicle liability are self-insured. Amounts accrued for costs of workers’ compensation, medical, professional and general liability, and vehicle liability are classified as current or long-term liabilities based upon an estimate of when the liability will ultimately be paid. Amounts are recorded gross of any estimated recoverable amounts from insurance providers. The estimated recoverable amounts from insurance providers are recorded within prepaid expense and other current assets and other assets on the unaudited condensed consolidated balance sheets based upon an estimate of when they will be received.

Amounts accrued as current liabilities within other accrued liabilities are as follows:

(in thousands)	September 30, 2021	December 31, 2020
Workers’ compensation	\$ 4,687	\$ 4,780
Professional and general liability/vehicle	3,686	3,929
Medical insurance	2,604	2,169

Amounts accrued as long-term liabilities within other noncurrent liabilities are as follows:

(in thousands)	September 30, 2021	December 31, 2020
Workers’ compensation	\$ 16,594	\$ 17,691
Professional and general liability/vehicle	5,680	6,554

**Stock-Based Compensation**—The Company accounts for its stock-based awards in accordance with provisions of Financial Accounting Standards Board (“FASB”) ASC No. 718, *Compensation—Stock Compensation*. Subsequent to the IPO, the Company has the following types of equity-based compensation awards outstanding: stock appreciation rights (“SARs”), restricted stock units (“RSUs”), performance-based restricted stock units (“PSUs”), Chief Financial Officer (“CFO”) RSUs, and stock-settled long-term incentive plan (“LTIP”) awards.

The Company recognizes compensation expense with respect to SARs based on the fair value of the awards as measured on the grant date. Fair value is not subsequently remeasured unless the conditions on which the award was granted are modified. The determination of fair value at grant date requires the use of estimates, which are based on management’s judgment. Generally, compensation expense for each separately vesting portion of the awards is recognized on a straight-line basis over the vesting period for that portion of the award subject to continued service.

As the CFO RSUs can be settled in either cash or shares of common stock at the election of the holder they are recorded as liability awards. The fair value is measured at the grant date and remeasured each reporting period until settlement. Compensation expense is recognized over the requisite service period subject to continued employment and adjusted each reporting period for changes in the fair value pro-rated for the portion of the requisite service period rendered.

The Company recognizes compensation expense with respect to RSUs and PSUs, (collectively referred to as omnibus plan awards (“Omnibus Plan Awards”)), based on the fair value of the awards as measured on the grant date. Fair value is not subsequently remeasured unless the conditions on which the award was granted are modified. For time based only Omnibus Plan Awards, compensation expense for each separately vesting portion of the award is recognized on a straight-line basis over the vesting period for that portion of the award subject to continued service. For Omnibus Plan Awards with performance conditions, compensation expense is recognized over the requisite service period subject to management’s estimation of the probability of vesting of such awards.

The IPO triggered a pre-existing provision under the Company’s 2019 LTIP pursuant to which the incentive awards will be settled in shares of the Company’s common stock. The modification of the award did not result in incremental compensation expense as the fair value of the award was the same immediately prior to and immediately after the modification. Compensation expense is recognized on a straight-line basis over the requisite service period subject to management’s estimation of the probability of vesting of such awards.

**Legal Reserves**—The Company is involved in various legal proceedings, claims, and litigation that arise in the ordinary course of business. The Company investigates these matters as they arise and reserves for potential loss in accordance with ASC No. 450, *Contingencies*. Significant judgment is required in the determination of both the probability of loss and whether the amount of the loss can be reasonably estimated. Estimates are subjective and are made in consultation with internal and external legal counsel. See further discussion at [Note 8 – Commitments and Contingencies](#).

**Income Taxes**—The Company’s provision for income taxes is based on expected income, permanent book/tax differences and statutory tax rates in the various jurisdictions in which the Company operates. Significant management estimates and judgments are required in determining the provision for income taxes.

Deferred income tax assets and liabilities are computed for differences between the carrying amounts of assets and liabilities for financial statement and tax purposes. Deferred income tax assets are required to be reduced by a valuation allowance when it is determined that it is more likely than not that all or a portion of a deferred tax asset will not be realized.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (“CARES”) Act was enacted and signed into U.S. law to provide economic relief to individuals and businesses facing economic hardship as a result of the novel coronavirus (“COVID-19”) public health emergency. The CARES Act includes, among other things, provisions relating to payroll tax credits and deferrals, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, and technical corrections to tax depreciation methods for qualified improvement property. As permitted under the CARES Act, the Company has elected to defer certain portions of

employer-paid FICA taxes otherwise payable from March 27, 2020 to January 1, 2021, to be paid in two equal installments on December 31, 2021 and December 31, 2022. As of September 30, 2021 and December 31, 2020, \$14.8 million of FICA tax payments were deferred, of which \$7.4 million is included in accrued payroll and related taxes and benefits and \$7.4 million is included in other noncurrent liabilities on the unaudited condensed consolidated balance sheets.

**Business Segments**—The Company has evaluated segment reporting in accordance with FASB ASC No. 280, *Segment Reporting*. The Company’s chief executive officer is its chief operating decision maker. The chief operating decision maker reviews financial information about the business at the enterprise-wide consolidated level when allocating the resources of the Company and assessing business performance. Accordingly, the Company has determined that its business activities comprise a single operating and reporting segment, the home respiratory therapy/home medical equipment segment. Through its single segment, the Company focuses on three core service lines: home respiratory therapy (including home oxygen and non-invasive ventilation services); obstructive sleep apnea treatment (including continuous positive airway pressure and bi-level positive airway pressure devices, and patient support services); and negative pressure wound therapy. Additionally, the Company supplies a wide range of home medical equipment and other products and services to help improve the quality of life for patients with home care needs.

Net revenues for each core service line were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
(in thousands)				
Home respiratory therapy	\$ 118,811	\$ 113,995	\$ 349,139	\$ 335,277
Obstructive sleep apnea treatment	118,253	111,981	353,917	330,965
Negative pressure wound therapy	9,874	10,961	30,258	30,751
Other equipment and services	40,259	39,823	115,436	117,935
Net revenues	<u>\$ 287,197</u>	<u>\$ 276,760</u>	<u>\$ 848,750</u>	<u>\$ 814,928</u>

**Earnings Per Share**—Prior to the IPO, the Company’s business was conducted through Apria Healthcare Group, which did not have a common capital structure with Apria, Inc. In connection with the completion of the offering, the Company underwent a reorganization transaction in which Apria Healthcare Group Inc. became an LLC and a newly formed indirect subsidiary of the Company merged with and into Apria Healthcare Group, with Apria Healthcare Group surviving. As a result, Apria Healthcare Group became an indirect wholly-owned subsidiary of the Company. As part of the merger Apria Healthcare Group SAR units were converted to Apria, Inc. SARs and the Company’s stockholders who previously held their ownership interest prior to the IPO through Holdings (as the 100% direct owner of Apria Healthcare Group) received newly issued common shares. The conversion ratios for SARs and the three different classes of profit interest units (“PIUs”), which each had different preference rights as detailed in [Note 5—Stock-Based Compensation](#), were determined based on the unit value implied by the per share price of common stock sold in the IPO. See further discussion at [Note 1—Summary of Significant Accounting Policies – Initial Public Offering](#). Based on the complex nature of the reorganization transaction and based on consideration of the equity structure prior to IPO, the Company computed EPS only on a prospective basis for the period the Company’s common stock was outstanding during 2021, referred to as the Post-IPO period. The Company has defined the Post-IPO period as February 10, 2021, the effective date of the pre-IPO reorganization and the completion of the offering, through September 30, 2021. Basic net income per common share represents net income attributable to common stockholders for the Post-IPO period divided by the weighted-average number of common shares outstanding during the Post-IPO period. Diluted net income per common share is similar to calculating basic net income per common share, except the denominator is increased to include the dilutive effects of stock-based awards except when doing so would be antidilutive.

The computation of net income per common share is presented below:

(in thousands, except share and per share data)	Three Months Ended September 30, 2021	February 10, 2021 through September 30, 2021
Net income attributable to common stockholders	\$ 22,806	\$ 46,387
Basic weighted average number of common shares outstanding	35,314,445	35,262,700
Dilutive effect of stock-based awards	2,896,513	2,814,319
Diluted weighted average number of common shares outstanding	38,210,958	38,077,019
Basic net income per common share	\$ 0.65	\$ 1.32
Diluted net income per common share	\$ 0.60	\$ 1.22

The 79,988 CFO RSUs outstanding during the Post-IPO period were not included in the calculation of diluted EPS as they were antidilutive. 95,544 outstanding equity awards under the LTIP plan and the 87,553 PSUs were not included in the calculation of dilutive EPS as the financial performance condition had not been met as of September 30, 2021.

Apria Healthcare Group had 992,719 basic and diluted weighted average common shares outstanding for the period of January 1, 2021 through February 10, 2021 and the three and nine months ended September 30, 2020.

## 2. ACQUISITIONS

The Company regularly evaluates potential acquisition opportunities and may periodically acquire businesses that will complement its existing operations and businesses. The results of operations of the acquired companies are included in the unaudited condensed consolidated statements of income from the dates of acquisition. On September 10, 2021, the Company, acquired certain assets of Airway Breathing Co., a Virginia corporation (“ABC”) for total consideration of \$24.7 million in cash. ABC provides services and products in the home respiratory therapy/home medical equipment segment and provides the Company with a market expansion opportunity. At September 30, 2021, \$4.7 million of the purchase price was held in escrow to secure certain indemnification obligations of the sellers. The Company allocated the consideration paid to the estimated fair values of the net assets acquired on a provisional basis based on a preliminary valuation, including an estimated \$0.6 million in property, equipment, and improvements, an estimated \$0.9 million in inventories, an estimated \$2.6 million to patient equipment, and an estimated \$20.9 million to intangible assets. Intangible assets acquired primarily relate to goodwill with an estimated fair value of \$15.6 million, payor relationships, with an estimated fair value of \$1.5 million and an estimated weighted-average useful life of 20.0 years, and customer list and other intangible assets, with an estimated fair value of \$3.8 million and an estimated weighted-average useful life of 3.0 years. The Company expects to finalize the allocation of the purchase consideration as soon as practicable. The acquisition of ABC includes contingent payments based on certain conditions after closing, which were determined to have an acquisition date fair value of \$0.4 million which was recorded as a contingent liability in other noncurrent liabilities in the unaudited condensed consolidated balance sheet in connection with the Company’s acquisition accounting for ABC. Acquisition transaction costs are recorded as incurred in SD&A in the unaudited condensed consolidated statement of income and were \$0.4 million in for the three and nine months ended September 30, 2021.

## 3. GOODWILL AND INTANGIBLE ASSETS

Changes in goodwill are as follows:

(in thousands)	Total
Balance as of December 31, 2020	\$ —
Acquisition	15,580
Balance as of September 30, 2021	\$ 15,580

Intangible assets consist of the following:

(dollars in thousands)	September 30, 2021				December 31, 2020		
	Average Life in Years	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Intangible assets subject to amortization:							
Capitated relationships	20.0	\$ 4,400	\$ (3,026)	\$ 1,374	\$ 4,400	\$ (2,880)	\$ 1,520
Payor relationships	20.0	9,140	(4,908)	4,232	7,600	(4,623)	2,977
Customer list & other	3.0	3,785	—	3,785	—	—	—
Subtotal		17,325	(7,934)	9,391	12,000	(7,503)	4,497
Intangible assets not subject to amortization:							
Trade names	—	50,000	—	50,000	50,000	—	50,000
Accreditations with commissions	—	7,000	—	7,000	7,000	—	7,000
Subtotal		57,000	—	57,000	57,000	—	57,000
Total		\$ 74,325	\$ (7,934)	\$ 66,391	\$ 69,000	\$ (7,503)	\$ 61,497

Amortization expense was \$0.1 million for the three months ended September 30, 2021 and 2020, respectively, and \$1.1 million and \$0.4 million for the nine months ended September 30, 2021 and 2020, respectively.

Estimated amortization expense for each of the fiscal years ending December 31 is presented below:

(in thousands)	
2021 (remainder)	\$ 590
2022	1,913
2023	1,913
2024	1,492
2025	651
Thereafter	2,832

#### 4. DEBT

Long-term debt consists of the following:

(in thousands)	September 30, 2021	December 31, 2020
Term Loan A	\$ 385,417	\$ 401,042
Less: Current portion	(31,250)	(20,833)
Less: Unamortized debt issuance costs	(3,025)	(3,820)
Total long-term debt	\$ 351,142	\$ 376,389

On June 21, 2019, the Company entered into a credit agreement with Citizens Bank and a syndicate of lenders for both a TLA of \$150.0 million and a Revolver of \$100.0 million. The Revolver replaced the prior Asset-Based Revolving Credit Facility which provided for revolving credit financing of up to \$125.0 million. Proceeds from the TLA were used to fund a \$175.0 million 2019 dividend payment to common stockholders and distribution to SARs holders.

On December 11, 2020, the Company entered into a credit facility amendment to obtain \$260.0 million of Incremental Term Loans. Net proceeds from the Incremental Term Loans were used to fund a \$200.3 million dividend payment to common stockholders and a \$9.7 million distribution to SARs holders declared and paid in December 2020, with the remaining proceeds used to pay fees and expenses in connection with the credit facility amendment and for general corporate purposes.

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The credit agreement permits the interest rate to be selected at the Company's option at either adjusted London Interbank Offered Rate ("Adjusted LIBOR") or alternative base rate plus their respective applicable margin. Adjusted LIBOR is the rate for Eurodollar deposits for the applicable interest period while the alternate base rate is the highest of (i) the Administrative Agent's "Prime Rate", (ii) the Federal Funds Effective Rate plus 0.50%, and (iii) one-month Adjusted LIBOR plus 1.00%. Furthermore, Adjusted LIBOR is subject to a 0.50% per annum floor and the alternative base rate is subject to a 1.50% per annum floor. Additionally, the margin applied to both the TLA and Revolver is determined based on total net leverage ratio. Total net leverage ratio is defined as net debt, which represents indebtedness minus up to \$25.0 million in cash and cash equivalents over consolidated EBITDA as defined under the credit agreement. The following is a summary of the additional margin and commitment fees payable on both the TLA and available Revolver:

Level	Total Net Leverage Ratio	Applicable Margin for Adjusted LIBOR Loans	Applicable Margin for Alternative Base Rate Loans	Commitment Fee
I	Greater than or equal to 3.00x	2.75 %	1.75 %	0.35 %
II	Greater than or equal to 2.50x but less than 3.00x	2.50 %	1.50 %	0.30 %
III	Greater than or equal to 1.50x but less than 2.50x	2.25 %	1.25 %	0.25 %
IV	Less than 1.50x	2.00 %	1.00 %	0.20 %

The TLA matures on June 21, 2024 and the Company is required to make quarterly principal payments on the TLA beginning June 30, 2020. Upon entering into the credit facility amendment, the amount of those quarterly principal payments was adjusted to account for the Incremental Term Loans. The table below is a summary of the expected timing of remaining principal repayments each fiscal year:

(in thousands)	
2021 (remainder)	\$ 5,208
2022	36,458
2023	41,667
2024	302,084

The credit agreement encompassing the TLA and Revolver permits the Company, subject to certain exceptions, to increase its TLA or its Revolver, as well as incur additional indebtedness, as long as it does not exceed the total net leverage ratio of 3.00x. The credit agreement requires mandatory prepayments upon the occurrence of certain events, such as dispositions and casualty events, subject to certain exceptions. The TLA or Revolver may be voluntarily prepaid by the Company at any time without any premium or penalty.

The assets of the Company and equity interest of all present and future wholly-owned direct domestic subsidiaries, with certain exceptions, are pledged as collateral for the TLA and Revolver. The credit agreement contains a financial covenant requiring the Company to maintain a total net leverage ratio less than 3.50x. The credit agreement also contains negative covenants that, among other things, restrict, subject to certain exceptions, the ability of Apria Healthcare Group and its restricted subsidiaries to incur additional indebtedness and guarantee indebtedness, create or incur liens, engage in mergers or consolidations, dispose of assets, pay dividends and distributions or repurchase capital stock, repay certain indebtedness, make investments and engage in certain transactions with affiliates.

As of September 30, 2021, there were \$15.8 million outstanding letters of credit, and additional availability under the Revolver net of letters of credit outstanding was \$84.2 million. The Company was in compliance with all debt covenants set forth in the TLA and Revolver as of September 30, 2021.

The Company records origination and other expenses related to certain debt issuance cost as a direct deduction from the carrying amount of the debt liability. Amortization of deferred debt issuance costs are classified within interest expense in the Company's unaudited condensed consolidated statements of income and was \$0.3 million and \$0.1 million for the three months ended September 30, 2021 and 2020, respectively, and \$0.8 million and \$0.4 million for the nine months ended September 30, 2021 and 2020, respectively.

Interest expense, excluding deferred debt issuance costs discussed above, was \$2.7 million and \$1.0 million for the three months ended September 30, 2021 and 2020, respectively, and \$8.1 million and \$3.7 million for the nine months ended September 30, 2021 and 2020, respectively. The interest rate was 2.50% as of each of September 30, 2021 and December 31, 2020.

Interest paid on debt totaled \$2.6 million and \$1.0 million for the three months ended September 30, 2021 and 2020, respectively, and \$8.0 million and \$3.7 million for the nine months ended September 30, 2021 and 2020, respectively.

## 5. STOCK-BASED COMPENSATION

The following table summarizes stock-based compensation expense recognized by type of award which is recorded within SD&A expenses in the unaudited condensed consolidated statements of income:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Stock-based compensation expense by type of award:				
Stock appreciation rights	\$ 614	\$ 511	\$ 1,548	\$ 1,455
Omnibus plan awards	577	—	1,224	—
CFO restricted stock units	1,057	—	3,497	—
Long-term incentive plan awards <sup>(1)</sup>	339	92	1,053	458
Total stock-based compensation expense	<u>\$ 2,587</u>	<u>\$ 603</u>	<u>\$ 7,322</u>	<u>\$ 1,913</u>

(1) Prior to the IPO, the LTIPs were recorded as cash-based compensation expense.

**Profit Interest Units**— On October 28, 2008, Apria Healthcare Group was acquired by a wholly-owned affiliate of BP Healthcare Holdings LLC (“Buyer”, or “BP Healthcare”). The Buyer was controlled by private investment funds affiliated with Blackstone Inc. (the “Sponsor”). BP Healthcare and its subsidiary, Holdings, granted equity units to certain employees, Board members and a member of a subsidiary’s Board of Directors for purposes of retaining them and enabling such individuals to participate in the long-term growth and financial success of the Company. These equity awards were issued in exchange for services to be performed.

PIUs were composed of Class B and Class C units related to Holdings. Holdings also has 3,575,000 outstanding in Class A-2 units, which are senior in liquidation rights to Class B units, whereas Class B units are senior in liquidation rights to Class C units. PIUs were measured at the grant date, based on the calculated fair value of the award, and were recognized as an expense over the employee’s requisite service period. There were no stated contractual lives for the units. The Company used the income approach and the guideline approach to estimate enterprise value, which was utilized to assess the fair value of each instrument.

Prior to the IPO, a portion of the Class B units vested over a specified period of time, generally five years, and a portion of the outstanding performance Class B units vested as a result of a modification, which accelerated vesting. Also, prior to the IPO, all outstanding performance Class C units vested as all performance conditions were met.

In connection with the IPO, all outstanding PIUs were converted into shares of Apria, Inc. common stock based on the value of the units implied by the per share price of common stock sold in the IPO.

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The following table summarizes activity for all PIUs for the period from December 31, 2020 to February 10, 2021, the date at which they were all converted into shares of Apria, Inc. common stock:

	Class B Units	Weighted-Average Exercise Price	Class C Units	Weighted-Average Exercise Price
Outstanding as of December 31, 2020	88,008,850	\$ 0.01	2,849,092	\$ —
Converted	(88,008,850)	(0.01)	(2,849,092)	—
Outstanding as of February 10, 2021	—	\$ —	—	\$ —

No units were granted in 2021 or 2020, as PIUs are no longer granted.

**Stock Appreciation Rights**—In 2015, the Company’s Board of Directors approved the Apria, Inc. 2015 Stock Plan that provided for the grant of stock appreciation rights to directors, officers, employees, consultants and advisers (and prospective directors, officers, employees, consultants, and advisers) of the Company and its affiliates. These equity awards were issued in exchange for services to be performed.

The plan mandated a maximum award term of 10 years and that SARs be granted with a strike price not less than the fair market value determined as of the date of grant. SARs are measured at the grant date, based on the calculated fair value of the award and are recognized as an expense over the employee’s requisite service period. SARs granted under the plan generally vest over 60 months from the date of grant based on continued service. The contractual lives for the units are 10 years. All unvested SARs are forfeited upon employee termination. The Company accounts for forfeitures when they occur, and ultimately stock-based compensation is only recognized for awards that vest. In the event of a change in capital structure or similar event, SARs may be modified.

In connection with the IPO, Apria Healthcare Group SARs were converted to Apria, Inc. SARs at a conversion ratio based on the value of the units implied by the per share price of common stock sold in the IPO. Further, a pre-existing provision in the SARs was triggered, under which the SARs became exercisable by the holders.

As of September 30, 2021, total unrecognized compensation cost related to unvested SARs was \$3.8 million, which is expected to be expensed over a weighted-average period of 2.9 years.

The following table summarizes activity for all SARs for the period from December 31, 2020 to September 30, 2021:

	Stock Appreciation Rights	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000s)
Outstanding as of December 31, 2020	106,113	\$ 220.42	7.0	\$ 51,885
Converted <sup>(1)</sup>	3,660,115			
Exercised	(388,206)	7.03		
Forfeited	(15,189)	5.33		
Outstanding as of September 30, 2021	3,362,833	\$ 6.14	6.2	\$ 104,298
Vested units as of September 30, 2021	2,634,480			
Exercisable as of September 30, 2021	2,211,481	\$ 6.73	5.3	\$ 67,265

(1) Represents the incremental SARs outstanding as a result of the conversion of Apria Healthcare Group SARs into Apria, Inc. SARs in connection with the IPO.

The total intrinsic value exercised during the nine months ended September 30, 2021 was \$10.4 million.

The following table summarizes the activity for unvested shares for the period from December 31, 2020 to September 30, 2021:

	Stock Appreciation Rights	Weighted- Average Grant-Date Fair Value
Unvested as of December 31, 2020	45,266	\$ 119.46
Converted <sup>(1)</sup>	1,561,343	
Vested	(474,861)	3.48
Forfeited	(15,189)	3.26
Unvested as of September 30, 2021	<u>1,116,559</u>	<u>\$ 3.32</u>

(1) Represents the incremental SARs outstanding as a result of the conversion of Apria Healthcare Group SARs into Apria, Inc. SARs in connection with the IPO.

There were 20,407 Apria Healthcare Group SARs granted in the nine months ended September 30, 2020 which were converted into Apria Inc. SARs at IPO. As of September 30, 2021, there were no SARs available for future grants under the plan as no new equity-based awards will be granted under the Apria, Inc. 2015 Stock Plan.

**Omnibus Plan Awards**—The Company granted RSUs and PSUs, under the 2021 Omnibus Incentive Plan, or collectively referred to as Omnibus Plan Awards. The Omnibus Plan Awards vest either based solely on the satisfaction of time-based service conditions or on the satisfaction of time-based service conditions combined with a performance criterion. Omnibus Plan Awards are subject to forfeiture if the holder’s services to the Company terminate before vesting.

Omnibus Plan Awards with only time-based service vesting conditions granted to non-employee directors vest on the earlier of (i) the first anniversary of the vesting commencement date, and (ii) the first regularly scheduled annual meeting of the stockholders of the Company following the date of grant. Omnibus Plan Awards with only time-based service vesting conditions granted to employees vest over a three-year service period, as defined in the terms of each award. Omnibus Plan Awards that vest based on the satisfaction of a time-based service conditions combined with a performance criterion generally vest at the end of a two-and-a-half-year service period and three-year performance period, based on performance criteria established at the time of the award. The portion of the Omnibus Plan Award that is earned may be zero to 200% of the targeted number of shares subject to the Omnibus Plan Award depending on whether the performance criterion is met or exceeded.

Omnibus Plan Awards	Time-Based One Year Vesting	Time-Based Three Year Vesting	Performance and Time-Based	Total	Weighted-Average Grant Date Fair Value
Unvested Omnibus Plan Awards at December 31, 2020	—	—	—	—	\$ —
Granted <sup>(1)</sup>	35,413	197,807	87,553	320,773	29.65
Unvested Omnibus Plan Awards at September 30, 2021 <sup>(1)</sup>	<u>35,413</u>	<u>197,807</u>	<u>87,553</u>	<u>320,773</u>	<u>\$ 29.65</u>
Unvested Omnibus Plan Awards expected to vest as of September 30, 2021				320,773	\$ 29.65

(1) Granted Omnibus Plan Awards and unvested Omnibus Plan Awards presented are based on the payout of the targeted number of shares.

As of September 30, 2021, the unrecognized compensation cost related to unvested Omnibus Plan Awards was \$8.2 million, excluding estimated forfeitures. This amount is expected to be recognized over a weighted-average period of 2.4

years. The Company accounts for forfeitures when they occur, and ultimately stock-based compensation expense is only recognized for awards that vest.

**CFO Restricted Stock Units**—The offering resulted in the grant of RSUs to the Company’s CFO. The RSUs vest in tranches, with the first tranche vesting immediately upon the completion of the offering and the remaining RSUs vesting in two equal tranches upon the six month and one-year anniversary following the offering, subject to the CFO’s continued employment. Each tranche of RSUs can be settled in either cash or shares of the Company’s common stock at the election of the CFO.

The first tranche of RSUs vested upon completion of the IPO and was settled in cash. The second tranche was settled in cash during the three months ended September 30, 2021. The remaining RSUs are settleable in cash or shares at the CFO’s election, which is outside of the control of the Company. As such, the remaining RSUs were treated as liability classified awards. The fair value was measured at the grant date and will be remeasured each reporting period until settlement. Compensation expense is recognized over the requisite service period subject to continued employment and adjusted each reporting period for changes in the fair value pro-rated for the portion of the requisite service period rendered. As of September 30, 2021, \$0.4 million was recorded within other accrued liabilities in the unaudited condensed consolidated balance sheet. Total unrecognized compensation cost related to RSUs was \$1.1 million as of September 30, 2021. This amount is expected to be recognized over a weighted-average period of 0.4 years.

The following table summarizes activity for CFO RSUs for the period from December 31, 2020 to September 30, 2021:

	Restricted Stock Units	Weighted-Average Grant-Date Fair Value
Balance as of December 31, 2020	—	\$ —
Granted at IPO	159,976	21.60
Vested and paid	(119,982)	21.60
Unvested and outstanding as of September 30, 2021	<u>39,994</u>	\$ 21.60

**Long-Term Incentive Plan**—The Company has a long-term incentive plan to incentivize free cash flow improvement and the transformational changes needed to position the Company properly for the future. The Company has awarded long-term incentive awards to executive officers and other key management employees.

The offering triggered a pre-existing provision under the Company’s 2019 LTIP pursuant to which the incentive awards will be settled in shares of the Company’s common stock. The maximum number of shares to be issued was determined by dividing the amount of each executive’s earned award by the volume-weighted average price of a share of common stock over the first 20 trading days following the offering. Awards granted under the 2019 LTIP have a maximum share count of 193,350 as of September 30, 2021. The offering was accounted for as a modification and, as such, the 2019 LTIP awards were reclassified from a liability to an equity classified award in connection with the IPO. As such, the estimated plan liability for services rendered during the term of the awards of \$2.2 million, which was recorded within other noncurrent liabilities in the audited consolidated balance sheet as of December 31, 2020, was reclassified to additional paid-in capital in the unaudited condensed consolidated financial statements as of September 30, 2021.

As of September 30, 2021, total estimated unrecognized compensation cost related to the LTIP was \$1.0 million. This amount is expected to be recognized over a weighted-average period of 1.0 years.

The following table summarizes maximum share count activity under LTIP awards for the period from December 31, 2020 to September 30, 2021 as it is probable that the Company will achieve the maximum free cash flow payout level under the plan:

	Long-Term Incentive Plan	Weighted- Average Grant-Date Fair Value
Balance as of December 31, 2020	—	\$ —
Conversion at IPO	199,004	22.11
Forfeited	(5,654)	22.11
Balance as of September 30, 2021	<u>193,350</u>	<u>\$ 22.11</u>

## 6. INCOME TAXES

The Company's effective tax rate was 24.2% for the three months ended September 30, 2021 compared to 53.8% for the three months ended September 30, 2020. The Company's effective tax rate was 29.0% for the nine months ended September 30, 2021 compared to 39.1% for the nine months ended September 30, 2020.

For the nine months ended September 30, 2021, the Company's effective tax rate differed from federal and state statutory rates primarily due to non-deductible executive compensation, and non-deductible public offering costs offset by excess tax benefits related to equity-based compensation. For the nine months ended September 30, 2020, the Company's effective tax rate differed from federal and state statutory rates primarily due to non-deductible expenses for tax purposes.

Deferred income taxes arise from temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes and tax losses and credit carryforwards. Deferred income tax assets are required to be reduced by a valuation allowance when it is determined that it is more likely than not that all or a portion of a deferred tax asset will not be realized.

As of each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets. As of September 30, 2021, management evaluated all positive and negative evidence related to its valuation allowance, including its three years of cumulative pretax income and its projected income, and determined that there is sufficient positive evidence to conclude that it is more likely than not that net deferred taxes of \$0.8 million and \$18.3 million as of September 30, 2021 and December 31, 2020, respectively, are realizable.

The Company accounts for its tax uncertainties under GAAP. For the nine months ended September 30, 2021, no material changes occurred with respect to the Company's tax uncertainties that would require disclosure.

The Company does not expect any material changes to its tax uncertainties within the 12-month rolling period ending September 30, 2022.

Net income tax payments were \$1.1 million and \$1.4 million for the three months ended September 30, 2021 and 2020, respectively, and \$3.1 million and \$1.7 million for the nine months ended September 30, 2021 and 2020, respectively.

## 7. LEASES

The Company leases all its facilities. The Company's real estate lease portfolio primarily consists of modified gross leases, in which the Company pays a share of the operating costs, and triple-net leases, in which the Company pays all of the operating costs. Operating costs that are the responsibility of the Company include taxes, maintenance, insurance and other allowable expenses. These expenses are considered variable costs as they are not tied to an index or rate. In addition, delivery vehicles and office equipment are leased under operating leases. Lease terms are generally five years

or less with renewal options for additional periods and often contain early termination clauses. Rents are generally increased annually by amounts stated within individual agreements, subject to certain maximum amounts defined within individual agreements.

The Company also leases certain patient equipment. Lease terms are generally twelve months or less with renewal options for additional periods. The Company also has short-term patient equipment leases with certain suppliers that are entirely variable based on equipment usage or a percentage of net revenues collected for specific products. Patient equipment lease expense is recorded in product and supply costs in the unaudited condensed consolidated statements of income in the period incurred. The Company uses the portfolio approach to review patient equipment leases.

All of the Company's leases are classified as operating leases. The leases do not include options to purchase the underlying assets that the Company is reasonably certain to exercise. The components of lease assets and liabilities are included on the unaudited condensed consolidated balance sheets.

Significant components of lease expense were:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Operating lease expense	\$ 8,584	\$ 9,306	\$ 26,351	\$ 27,962
Variable lease expense	6,017	6,072	18,006	17,392
Short-term lease expense	585	379	1,630	904
Total lease expense	<u>\$ 15,186</u>	<u>\$ 15,757</u>	<u>\$ 45,987</u>	<u>\$ 46,258</u>

The following table summarizes supplemental information related to the Company's operating leases:

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 8,745	\$ 7,709	\$ 23,398	\$ 21,794
Right-of-use assets obtained in exchange for new operating lease liabilities	9,944	6,250	23,953	15,165
Weighted average remaining lease term	3.3 years	3.0 years	3.3 years	3.0 years
Weighted average discount rate	3.7 %	4.9 %	3.7 %	4.9 %

## 8. COMMITMENTS AND CONTINGENCIES

**Litigation**—On December 18, 2020, a federal judge approved a civil and administrative settlement Apria entered into with the United States and state Medicaid programs in a complaint filed by three relators under the qui tam provisions of the False Claims Act ("FCA"), 31 U.S.C. § 3729 et seq., as well as comparable state false claims laws, in connection with the rental of non-invasive ventilators ("NIVs"). Apria also entered into separate settlements to resolve the relators' claims brought on behalf of the States of California and Illinois related to NIVs covered by private insurers. The matter had been pending since 2017.

The government had alleged that Apria violated the FCA by submitting false claims seeking reimbursement for NIVs which were not being used, or not being used sufficiently, by patients, for NIVs which were being used pursuant to physician orders on a device setting which was available from other less expensive devices, and for improperly waiving co-pays to induce beneficiaries to rent NIVs. To resolve any potential liability, Apria agreed to enter into a civil settlement agreement with the government and paid \$40.0 million to the federal government and the states during the year ended December 31, 2020. Apria separately agreed with the relators and paid approximately \$3.6 million during the year ended December 31, 2020 to settle all remaining claims from their complaint, including: (1) claims for retaliation in violation of federal and state laws; (2) claims for attorneys' fees and costs available under federal and state law; and (3) claims under the Illinois Insurance Claims Fraud Prevention Act, 740 ILL. COMP. STAT. 92/1 et seq. Apria also agreed with the California Department of Insurance to pay \$0.5 million, which was paid during the three months ended

March 31, 2021, to resolve claims asserted by the relators under the California Insurance Frauds Prevention Act, CAL. INS. CODE § 1871 et seq. Apria did not admit that any of its conduct was illegal or otherwise improper. The expense is included in SD&A expenses in the unaudited condensed consolidated statements of income and was \$0.0 million and \$19.7 million for the three months ended September 30, 2021 and 2020, respectively, and \$0.0 million and \$32.5 million for the nine months ended September 30, 2021 and 2020, respectively.

In addition to the matter referenced in this note, the Company is engaged in the defense of certain claims and lawsuits arising out of the ordinary course and conduct of its business, the outcomes of which are not determinable at this time. Insurance policies covering such potential losses, where such coverage is cost effective, are maintained. In the opinion of management, any liability that might be incurred upon the resolution of these claims and lawsuits will not, in the aggregate, have a material effect on the Company's financial condition or results of operations, cash flows and liquidity.

**Supplier Concentration**—Approximately 77% of purchases for patient equipment and supplies are from five vendors. Although there are a limited number of suppliers, management believes that other vendors could provide similar products on comparable terms. However, a change in suppliers could cause delays in service delivery and possible losses of revenue, which could adversely affect the Company's consolidated financial condition or operating results. In June 2021, one of the Company's suppliers, Philips Respironics, announced a voluntary recall for continuous and non-continuous ventilators (certain CPAP, BiLevel positive airway pressure and ventilator devices) related to polyurethane foam used in those devices. The Food and Drug Administration ("FDA") has since identified this as a Class I recall, the most serious category of recall. In addition, from time to time, the Company enters into exclusive arrangements with certain suppliers to provide patient equipment and supplies.

**Purchase Obligations**—In April 2009, the Company entered into a ten-year information technology services agreement to outsource certain information systems functions. Effective February 2020, the agreement was amended a second time to extend the agreement through January 2024. If the Company terminated the agreement, the required obligation to the vendor would be approximately \$4.4 million for services during the 120-day cancellation notice period plus termination fees.

**Guarantees and Indemnities**—From time to time, the Company enters into certain types of contracts that contingently require the Company to indemnify parties against third-party claims. These contracts primarily relate to: (i) certain asset purchase agreements, under which the Company may provide customary indemnification to the seller of the business being acquired; (ii) certain real estate leases, under which the Company may be required to indemnify property owners for environmental and other liabilities, and other claims arising from the Company's use of the applicable premises; and (iii) certain agreements with the Company's officers, directors, and employees, under which the Company may be required to indemnify such persons for liabilities arising out of their relationship with the Company.

The terms of such obligations vary by contract, and in most instances, a specific or maximum dollar amount is not explicitly stated therein. Generally, amounts under these contracts cannot be reasonably estimated until a specific claim is asserted. Consequently, no liabilities have been recorded for these obligations on the unaudited condensed consolidated balance sheets for any of the periods presented.

## 9. CERTAIN RELATIONSHIPS AND RELATED-PARTY TRANSACTIONS

**DMEscripts LLC**— In connection with the formation of the JV, the Company entered into a promissory note that evidences a LOC pursuant to a JV Loan Agreement, to which the Company has agreed to provide up to \$3.0 million in debt funding to the JV. In accordance with the JV Loan Agreement, the LOC bears interest at the rate of 7.5% per annum. The LOC calls for monthly interest only payments until the sooner of August 16, 2025 or the borrower achieving Breakeven Performance, at which time the remaining outstanding principal amount is amortized in equal monthly installments over five years. Amounts due under the LOC may be prepaid at any time. As of September 30, 2021, the outstanding balance of \$0.8 million under the LOC was recorded as a note receivable, related party on the unaudited condensed consolidated balance sheet. In addition, the Company has \$0.4 million of accounts receivable due from the JV pursuant to a transition services agreement included within prepaid expenses and other current assets on the unaudited condensed consolidated balance sheet.

**Commercial Transactions with Sponsor's Portfolio Companies:**

**Change Healthcare**—In December 1999, the Company entered into an agreement with Change Healthcare, a company affiliated with the Sponsor since 2011, to perform various revenue and payment cycle management functions. The Company paid Change Healthcare approximately \$0.8 million for the three months ended September 30, 2021 and 2020, and \$2.2 million and \$2.3 million for the nine months ended September 30, 2021 and 2020, respectively. Amounts included in accounts payable were \$0.5 million and \$0.2 million as of September 30, 2021 and December 31, 2020, respectively.

**BREIT Industrial Canyon PA1W01 LLC**—In May 2018, the Company began paying BREIT Industrial Canyon, a subsidiary of Blackstone Real Estate Income Trust, Inc., which is a non-exchange traded, perpetual life real estate investment trust externally managed by an affiliate of the Sponsor, which had acquired a property for which the Company is in a lease agreement through October 2023. The Company paid BREIT Industrial Canyon approximately \$0.2 million for the three months ended September 30, 2021 and 2020, and \$0.8 million and \$0.5 million for the nine months ended September 30, 2021 and 2020, respectively. The discounted operating lease liability for the remaining noncancelable lease term is \$1.3 million and \$1.7 million as of September 30, 2021 and December 31, 2020, respectively.

**Mphasis**—In September 2019, the Company entered into an 87-month agreement with Mphasis, a Company affiliated with the Sponsor since 2016, to perform various technology related services previously performed by another outsource vendor. The Company has the right to terminate for convenience with a minimum three-month notice. If the Company terminated the agreement, the required obligation to the vendor would be approximately \$1.1 million for services during the three-month cancellation notice period. The Company paid Mphasis approximately \$1.7 million and \$0.8 million for the three months ended September 30, 2021 and 2020, respectively, and \$4.3 million and \$2.5 million for the nine months ended September 30, 2021 and 2020, respectively. Amounts included in accounts payable were \$0.8 million and \$0.4 million as of September 30, 2021 and December 31, 2020, respectively.

**Alight Solutions**—In December 2019, the Company entered into an agreement with Alight Solutions, a Company affiliated with the Sponsor since 2017, to perform services related to the deployment of a new financial management system. The Company also entered into a three-year post-implementation support contract that is expected to begin prior to the end of 2021. The Company paid Alight approximately \$0.3 million and \$0.2 for the three months ended September 30, 2021 and 2020, respectively, and \$1.0 million and \$0.5 million for the nine months ended September 30, 2021 and 2020, respectively. Amounts included in accounts payable were \$0.4 million and \$0.3 million as of September 30, 2021 and December 31, 2020, respectively.

**Blue Yonder**—Blue Yonder, a Company affiliated with the Sponsor, provides software solutions for supply chain planning optimization. On September 17, 2021, Blue Yonder was sold. The Company paid Blue Yonder, approximately \$0.0 million for the three and nine months ended September 30, 2021 through the transaction date, and \$0.0 million and \$0.5 million for the three and nine months ended September 30, 2020, respectively. No amounts were included in accounts payable as of September 30, 2021 and December 31, 2020.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis of Apria, Inc. (the “Company,” “our,” or “we”) and its subsidiaries financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes thereto included elsewhere in this report and with our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 (the “2020 Form 10-K”). In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from management’s expectations. Certain factors that could cause such differences are discussed in Part I, Item 1A. “Risk Factors” in the 2020 Form 10-K, Part II, Item 1A. “Risk Factors” in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021, and “[Cautionary Note Regarding Forward-Looking Statements](#)” in this report.*

### **Our Company**

We are a leading provider of integrated home healthcare equipment and related services in the United States. We offer a comprehensive range of products and services for in-home care and delivery across three core service lines: (1) home respiratory therapy (including home oxygen and non-invasive ventilation (“NIV”) services); (2) obstructive sleep apnea (“OSA”) treatment (including continuous positive airway pressure (“CPAP”) and bi-level positive airway pressure devices, and patient support services); and (3) negative pressure wound therapy (“NPWT”). Additionally, we supply a wide range of home medical equipment and other products and services to help improve the quality of life for patients with home care needs. Our revenues are generated through fee-for-service and capitation arrangements with third-party healthcare payors, including government and commercial payors (“Payors”) for equipment, supplies, services and other items we rent or sell to patients. Through our offerings, we also provide patients with a variety of clinical and administrative support services and related products and supplies, most of which are prescribed by a physician as part of a care plan.

In 2020, we served nearly 2 million patients, made approximately 2.4 million deliveries and conducted approximately 735,000 clinician interactions with our patients.

### **Impact of COVID-19 Pandemic**

Our priorities during the novel coronavirus (“COVID-19”) pandemic are protecting the health and safety of our employees (including patient-facing employees providing respiratory and other services), maximizing the availability of our services and products to support patient health needs, and the operational and financial stability of our business.

In response to the COVID-19 pandemic and the National Emergency Declaration, dated March 13, 2020, we activated certain business interruption protocols, including acquisition and distribution of personal protective equipment (“PPE”) to our patient-facing employees, accelerated capital expenditures of certain products and relocation of significant portions of our workforce to “work-from-home” status.

While the impact of the COVID-19 pandemic, the National Emergency Declaration and the various state and local government imposed stay-at-home restrictions did not have a material adverse impact on our consolidated operating results for the nine months ended September 30, 2021 and the fiscal year ended December 31, 2020, we experienced declines in net revenues in certain services associated with elective medical procedures and the disruption in physician practices (such as commencement of new CPAP services, ventilation therapy, negative pressure wound therapy, and other equipment and services) and such declines may continue during the duration of the COVID-19 pandemic. Offsetting these declines in net revenue, we have experienced an increase in net revenue related to increased demand for certain respiratory products (such as oxygen) and increased sales in our resupply business (primarily as a result of the increased ability to contact patients at home as a result of state and local government imposed stay-at-home orders). In response, we instituted temporary cost mitigation measures such as reduced hours and management of variable labor and operating costs. In addition, as part of the Coronavirus Aid, Relief and Economic Security (“CARES”) Act, we experienced an increase in Medicare reimbursement rates from March 6, 2020 to the end of the public health emergency and a suspension of Medicare sequestration from May 1, 2020 through December 31, 2021 (resulting in a 2% increase in Medicare payments to all providers) resulting in a temporary increase in net revenues for certain products and services.

Recent regulatory guidance from the Centers for Medicare and Medicaid Services expanding telemedicine and reducing documentation requirements during the emergency period resulted in increased net revenues for certain products and services. We have not experienced a significant slowdown in cash collections, and as a result our cash flow from operations has not been materially adversely impacted to date.

In 2021, the global economy has, with certain setbacks, begun reopening, and wider distribution of vaccines will likely encourage greater economic activity. Nevertheless, wide disparities in vaccination rates and continued vaccine hesitancy, combined with the emergence of COVID-19 variants and surges in COVID-19 cases, could trigger the reinstatement of restrictions, including mandatory business shut-downs, travel restrictions, reduced business operations and social distancing requirements, which could dampen or delay any economic recovery. We are closely monitoring the impact of the COVID-19 pandemic, including the emergence of variant strains of the virus, on our business. While economic conditions have improved significantly from the initial outbreak of the virus, given the ongoing nature of the pandemic it is difficult to predict the future impact COVID-19 may have on our business, results of operations, financial position and cash flows.

### **Impact of Philips Respironics Recall**

In June 2021, one of our suppliers, Philips Respironics, announced a voluntary recall (“Recall”) for continuous and non-continuous ventilators (certain CPAP, BiLevel positive airway pressure and ventilator devices) related to polyurethane foam used in those devices. The Food and Drug Administration (“FDA”) has since identified this as a Class I recall, the most serious category of recall. Because we distribute these products and provide related home respiratory services and, in part, due to the substantial number of impacted devices, our management team has devoted, and will likely continue to devote, substantial time and resources to coordinating recall-related activity and to supporting our home healthcare patients’ needs. This Recall may cause us to incur significant costs, some or all of which may not be recoverable from the product manufacturer. The Recall may also materially negatively affect our revenues and results of operations as a result of patients not using their impacted devices, current shortages in the availability of both replacement devices for impacted patients and new devices for new patients, patient hesitancy to use respiratory devices generally or other reasons.

We are closely monitoring the impact of the Recall on our business and the uncertainty surrounding the availability and supply of CPAP and ventilators due to the Recall. There is an equipment shortage in our industry and the Recall or other supply chain disruptions may have a future material adverse effect on our financial condition or results of operations, cash flows and liquidity. See Part II, Item 1A. “Risk Factors” in our Quarterly Report on Form 10-Q for the period ended June 30, 2021.

### **Components of Operating Results**

**Net Revenues.** Revenues are recognized under fee-for-service and capitation arrangements for equipment, supplies, services and other items we rent or sell to patients. Fee-for-service is a payment model where we are paid for our service to provide equipment, supplies and other items. Capitation is a payment arrangement where a set amount is paid per member per month for a defined patient population, based on a negotiated contractual rate derived using average expected utilization of services.

Revenue generated from equipment that we rent to patients is recognized over the noncancelable rental period and commences on delivery of the equipment to the patients. Revenue related to sales of equipment and supplies is recognized on the date of delivery to the patients. Capitation revenue is recognized as a result of entering into a contract with a third party to stand ready to provide its members certain services without regard to the actual services provided; therefore, revenue is recognized over the period that the beneficiaries are entitled to healthcare services. Due to the nature of our industry and the reimbursement environment in which we operate, certain estimates are required to record total net revenues.

### ***Cost of Net Revenues and Gross Margin.***

*Cost of Net Revenues.* We incur product and supply costs, depreciation of patient equipment, home respiratory therapists costs and other costs in connection with providing our services:

- Product and supply costs are comprised primarily of the cost of supplies, equipment and accessories provided to patients.
- Patient equipment depreciation is provided using the straight-line method over the estimated useful lives of the equipment, which range from 1 to 10 years. Patient equipment depreciation is classified in our unaudited condensed consolidated statements of income within cost of net revenues as the equipment is rented to patients as part of our primary operations. Patient equipment is generally placed for rent; however, it could also be sold to customers. Upon a sale, we record the proceeds of the sale within net revenue and the cost related to the carrying net book value as other costs within cost of net revenues in our unaudited condensed consolidated statements of income.
- Home respiratory therapists costs are comprised primarily of employee salary and benefit costs or contract fees paid to respiratory therapists and other related professionals who are deployed to service a patient.

*Gross Margin.* Gross margin is gross profit expressed as a percentage of net revenues. Our gross margin is impacted by Payor and product mix, fluctuations in pricing of supplies, equipment and accessories, as well as reimbursement levels.

***Selling, Distribution and Administrative.*** Selling, distribution and administrative (“SD&A”) expenses are comprised of expenses incurred in support of our operations and administrative functions and includes labor costs, such as salaries, bonuses, commissions, benefits and travel-related expenses for our employees, facilities rental costs, third-party revenue cycle management costs and corporate support costs including finance, information technology, legal, human resources, procurement, and other administrative costs. Distribution expenses represents the cost incurred to coordinate and deliver products and services to the patients. Included in distribution expenses are leasing, maintenance, licensing and fuel costs for the vehicle fleet; salaries, benefits and other costs related to drivers and dispatch personnel; and amounts paid to couriers and other third-party logistics and shipping vendors.

***Income Tax Expense.*** Our provision for income taxes is based on expected income, permanent book/tax differences and statutory tax rates in the various jurisdictions in which we operate. Significant estimates and judgments are required in determining the provision for income taxes.

### **Seasonality**

Our business is sensitive to seasonal fluctuations. Our patients are generally responsible for a greater percentage of the cost of their treatment or therapy during the early months of the year due to co-insurance, co-payments and deductibles, and therefore may defer treatment and services of certain therapies until meeting their annual deductibles. In addition, changes to employer insurance coverage often go into effect at the beginning of each calendar year which may impact eligibility requirements and delay or defer treatment or recognition of revenues. These factors may lead to lower total revenues and cash flow in the early part of the year and higher total revenues and cash flow in the latter half of the year. Additionally, the increased incidence of respiratory infections during the winter season may result in initiation of additional respiratory services such as oxygen therapy for certain patient populations. Our quarterly operating results may fluctuate significantly in the future depending on these and other factors.

### **Key Performance Metrics**

We regularly review key performance metrics to evaluate our business, measure our performance, identify trends in our business, prepare financial projections and make strategic decisions.

**EBITDA, Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex.** We use the non-GAAP financial information of earnings, before interest, taxes, depreciation, and amortization (“EBITDA”), Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex as key profitability measures to evaluate the business. Refer to the “Non-GAAP financial information” section below for further detail, including a table reconciling each of such measures to net income, the most directly comparable accounting principles generally accepted in the United States of America (“GAAP”) measure. The below table sets forth net income, EBITDA, Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex for each of the three and nine months ended September 30, 2021 and 2020:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income	\$ 22,806	\$ 5,700	\$ 47,926	\$ 20,268
EBITDA	\$ 56,859	\$ 42,111	\$ 158,768	\$ 123,813
Adjusted EBITDA	\$ 60,962	\$ 64,995	\$ 173,588	\$ 162,765
Adjusted EBITDA less Patient Equipment Capex	\$ 38,922	\$ 38,570	\$ 107,766	\$ 99,283

## Results of Operations

### Comparison of Three Months Ended September 30, 2021 and Three Months Ended September 30, 2020.

The following table summarizes our consolidated results of operations:

(dollar amounts in thousands)	Three Months Ended September 30,		Change \$	Change %
	2021	2020		
Net revenues	\$ 287,197	\$ 276,760	\$ 10,437	3.8 %
Cost of net revenues, including related depreciation	81,862	78,699	3,163	4.0 %
Gross margin	205,335	198,061	7,274	3.7 %
Selling, distribution and administrative	176,372	184,674	(8,302)	(4.5)%
Total costs and expenses	258,234	263,373	(5,139)	(2.0)%
Operating income	28,963	13,387	15,576	116.4 %
Interest expense	2,938	1,117	1,821	163.0 %
Interest income	(51)	(74)	23	(31.1)%
Gain from derecognition of nonfinancial asset	(3,994)	—	(3,994)	— %
Income tax expense	7,264	6,644	620	9.3 %
Net income	\$ 22,806	\$ 5,700	\$ 17,106	300.1 %

**Net Revenues.** Net revenues for the three months ended September 30, 2021 were \$287.2 million compared to \$276.8 million for the three months ended September 30, 2020, an increase of \$10.4 million or 3.8%. The increase in net revenues for the three months ended September 30, 2021 was primarily due to growth in home respiratory therapy and OSA treatment net revenues despite equipment shortages due to the Recall or other supply chain disruptions. Our core services comprise total net revenues as follows:

(dollar amounts in thousands)	Three Months Ended September 30,		Change \$	Change %
	2021	2020		
Home respiratory therapy	\$ 118,811	\$ 113,995	\$ 4,816	4.2 %
OSA treatment	118,253	111,981	6,272	5.6 %
NPWT	9,874	10,961	(1,087)	(9.9)%
Other equipment and services	40,259	39,823	436	1.1 %
Net revenues	\$ 287,197	\$ 276,760	\$ 10,437	3.8 %

Net revenues for the three months ended September 30, 2021 increased primarily due to the following:

- **Home respiratory therapy.** Net revenues increased 4.2% primarily due to increased volume of patients requiring oxygen therapy during the COVID-19 pandemic and higher reimbursement levels. The increase

was partially offset by lower ventilation therapy revenues due to a reduction in the commencement of new services during the COVID-19 pandemic, as well as, equipment shortages resulting from the Recall.

- **OSA treatment.** Net revenues increased 5.6% primarily due to higher volume and reimbursement in OSA treatment and related supplies despite experiencing equipment shortages due to the Recall or other supply chain disruptions.
- **NPWT.** Net revenues decreased 9.9% primarily due to lower revenues resulting from reduced patient volumes.
- **Other equipment and services.** Net revenues increased 1.1% primarily due to an increase in reimbursement levels.

Revenues reimbursed under arrangements with Medicare and Medicaid were approximately 22% and 1%, respectively, of total net revenues for the three months ended September 30, 2021 and 21% and 1%, respectively, of total net revenues for the three months ended September 30, 2020.

**Cost of Net Revenues and Gross Margin.**

**Cost of Net Revenues.** Cost of net revenues for the three months ended September 30, 2021 was \$81.9 million compared to \$78.7 million for the three months ended September 30, 2020, an increase of \$3.2 million or 4.0%. The increase in cost of net revenues for the three months ended September 30, 2021 was primarily due to increased product and supply costs partially offset by lower patient equipment depreciation as described below. Our cost of net revenues was as follows:

(dollar amounts in thousands)	Three Months Ended September 30,		Change \$	Change %
	2021	2020		
Product and supply costs	\$ 48,809	\$ 45,192	\$ 3,617	8.0 %
Patient equipment depreciation	24,746	25,104	(358)	(1.4)%
Home respiratory therapists costs	4,023	3,986	37	0.9 %
Other	4,284	4,417	(133)	(3.0)%
Total cost of net revenues	\$ 81,862	\$ 78,699	\$ 3,163	4.0 %

Product and supply costs increased primarily to support increased volume in OSA treatment supplies and increased costs for non-recoverable patient equipment.

Patient equipment depreciation costs decreased primarily as a result of lower sleep equipment to support volume partially offset by increased equipment purchases to support higher oxygen therapy volume.

**Gross Margin.** Gross margin for the three months ended September 30, 2021 was 71.5% compared to 71.6% for the three months ended September 30, 2020, a decrease of 10 basis points. The gross margin decrease was primarily driven by an increase in capitation contract utilization as we experienced a decline in utilization during the COVID-19 pandemic in the prior year, which was partially offset by higher reimbursement levels.

**Selling, Distribution and Administrative.** SD&A expenses for the three months ended September 30, 2021 were \$176.4 million compared to \$184.7 million for the three months ended September 30, 2020, a decrease of \$8.3 million or 4.5%. SD&A expenses for the three months ended September 30, 2021 were 61.4% of total net revenues compared to 66.7% of total net revenues for the three months ended September 30, 2020. The decrease was primarily due to a \$19.7 million reduction in one-time expense associated with the settlement of a series of civil investigative demands in the prior year and a special recognition bonus in prior year. See further discussion at [Note 8 - Commitments and Contingencies](#) in our unaudited condensed consolidated financial statements for more information. The decrease was partially offset by increased variable costs associated with volume growth, higher self-insurance medical expense, higher distribution expense and increased costs associated with being a public company.

**Interest Expense.** Interest expense for the three months ended September 30, 2021 was \$2.9 million compared to \$1.1 million for the three months ended September 30, 2020, an increase of \$1.8 million or 163.0% primarily due to higher outstanding debt.

**Gain From Derecognition of Nonfinancial Asset.** Gain from derecognition of nonfinancial asset for the three months ended September 30, 2021 was \$4.0 million resulting from a contribution of software and other intellectual property to a joint venture in exchange for a 40% membership interest. See [Note 1](#) – Summary of Significant Accounting Policies for a discussion of the equity method investment.

**Income Tax Expense.** Income tax expense for the three months ended September 30, 2021 was \$7.3 million compared to \$6.6 million for the three months ended September 30, 2020, an increase of \$0.6 million or 9.3%. Our effective tax rate was 24.2% and 53.8% for the three months ended September 30, 2021 and 2020, respectively. The change in income tax expense was primarily a result of an increase in taxable operating income offset by deductions for equity-based compensation. For the three months ended September 30, 2021, the effective tax rate differed from federal and state statutory rates primarily due to excess tax benefits related to equity-based compensation, offset by non-deductible executive compensation.

**Comparison of Nine Months Ended September 30, 2021 and Nine Months Ended September 30, 2020.**

The following table summarizes our consolidated results of operations:

(dollar amounts in thousands)	Nine Months Ended September 30,			
	2021	2020	Change \$	Change %
Net revenues	\$ 848,750	\$ 814,928	\$ 33,822	4.2 %
Cost of net revenues, including related depreciation	253,528	243,920	9,608	3.9 %
Gross margin	595,222	571,008	24,214	4.2 %
Selling, distribution and administrative	522,935	534,110	(11,175)	(2.1)%
Total costs and expenses	776,463	778,030	(1,567)	(0.2)%
Operating income	72,287	36,898	35,389	95.9 %
Interest expense	8,882	4,047	4,835	119.5 %
Interest income	(142)	(451)	309	(68.5)%
Gain from derecognition of nonfinancial asset	(3,994)	—	(3,994)	— %
Income tax expense	19,615	13,034	6,581	50.5 %
Net income	\$ 47,926	\$ 20,268	\$ 27,658	136.5 %

**Net Revenues.** Net revenues for the nine months ended September 30, 2021 were \$848.8 million compared to \$814.9 million for the nine months ended September 30, 2020, an increase of \$33.8 million or 4.2%. The increase in net revenues for the nine months ended September 30, 2021 was primarily due to growth in home respiratory therapy and OSA treatment net revenues. The increase was partially offset by reduced demand for certain products and services associated with elective medical procedures and the disruption in physician practices (such as commencement of new ventilation therapy and other equipment and services) during the COVID-19 pandemic as well as equipment shortages due to the Recall or other supply chain disruptions. The increase in net revenues was also due to higher reimbursement levels and increased Medicare reimbursement rates from the CARES Act, the temporary suspension of Medicare sequestration, and oxygen budget neutrality, partially offset by reductions in commercial Payor reimbursement rates. Our core services comprise total net revenues as follows:

(dollar amounts in thousands)	Nine Months Ended September 30,			
	2021	2020	Change \$	Change %
Home respiratory therapy	\$ 349,139	\$ 335,277	\$ 13,862	4.1 %
OSA treatment	353,917	330,965	22,952	6.9 %
NPWT	30,258	30,751	(493)	(1.6)%
Other equipment and services	115,436	117,935	(2,499)	(2.1)%
Net revenues	\$ 848,750	\$ 814,928	\$ 33,822	4.2 %

Net revenues for the nine months ended September 30, 2021 increased primarily due to the following:

- **Home respiratory therapy.** Net revenues increased 4.1% primarily due to increased volume of patients requiring oxygen therapy, higher reimbursement levels, as well as increased Medicare reimbursement rates from the CARES Act, the temporary suspension of Medicare sequestration, and oxygen budget neutrality. The increase was partially offset by lower ventilation therapy revenues due to a reduction in the commencement of new services during the COVID-19 pandemic, and equipment shortages due to the Recall.
- **OSA treatment.** Net revenues increased 6.9% primarily due to volume growth in OSA treatment supplies and equipment despite recent equipment shortages due to the Recall or other supply chain disruptions. The increase was also due to higher reimbursement levels.
- **NPWT.** Net revenues decreased 1.6% primarily due to lower allocation of capitation revenues.
- **Other equipment and services.** Net revenues decreased 2.1% primarily due to a reduced patient volumes, as well as, a lower allocation of capitation revenues partially offset by higher reimbursement levels.

Revenues reimbursed under arrangements with Medicare and Medicaid were approximately 21% and 1%, respectively, of total net revenues for the nine months ended September 30, 2021 and September 30, 2020.

**Cost of Net Revenues and Gross Margin.**

**Cost of Net Revenues.** Cost of net revenues for the nine months ended September 30, 2021 was \$253.5 million compared to \$243.9 million for the nine months ended September 30, 2020, an increase of \$9.6 million or 3.9%. The increase in cost of net revenues for the nine months ended September 30, 2021 was primarily due to increased product and supply costs, offset by lower other costs and lower home respiratory therapists costs as described below. Our cost of net revenues was as follows:

(dollar amounts in thousands)	Nine Months Ended September 30,		Change \$	Change %
	2021	2020		
Product and supply costs	\$ 152,723	\$ 141,563	\$ 11,160	7.9 %
Patient equipment depreciation	75,631	75,840	(209)	(0.3)%
Home respiratory therapists costs	12,345	12,848	(503)	(3.9)%
Other	12,829	13,669	(840)	(6.1)%
<b>Total cost of net revenues</b>	<b>\$ 253,528</b>	<b>\$ 243,920</b>	<b>\$ 9,608</b>	<b>3.9 %</b>

Product and supply costs increased primarily to support increased volume in OSA treatment supplies.

Home respiratory therapists costs decreased primarily due to reduced demand for ventilation therapy, as well as, operational efficiencies during the COVID-19 pandemic.

Other costs decreased as a result of a lower volume of sales or title transfers to patients driven by contractual requirements during the COVID-19 pandemic.

**Gross Margin.** Gross margin for the nine months ended September 30, 2021 and September 30, 2020 was flat at 70.1%. Higher reimbursement levels and increased Medicare reimbursement rates from the CARES Act, the temporary suspension of Medicare sequestration, and oxygen budget neutrality were offset by a decrease in commercial Payor reimbursement rates and an increase in capitation contract utilization in the current year.

**Selling, Distribution and Administrative.** SD&A expenses for the nine months ended September 30, 2021 were \$522.9 million compared to \$534.1 million for the nine months ended September 30, 2020, a decrease of \$11.2 million or 2.1%. SD&A expenses for the nine months ended September 30, 2021 were 61.6% of total net revenues compared to 65.5% of total net revenues for the nine months ended September 30, 2020. The decrease was primarily due a \$32.5

million reduction in a one-time expense associated with the settlement of a series of civil investigative demands in the prior year, a special recognition bonus in prior year, and lower current year incentive compensation. See further discussion at [Note 8 - Commitments and Contingencies](#) in our unaudited condensed consolidated financial statements for more information. The decrease was partially offset by higher variable costs associated with volume growth, and higher costs associated with being a public company.

**Interest Expense.** Interest expense for the nine months ended September 30, 2021 was \$8.9 million compared to \$4.0 million for the nine months ended September 30, 2020, an increase of \$4.8 million or 119.5% primarily due to higher outstanding debt.

**Gain From Derecognition of Nonfinancial Asset.** Gain from derecognition of nonfinancial asset for the nine months ended September 30, 2021 was \$4.0 million resulting from a contribution of software and other intellectual property to a joint venture in exchange for a 40% membership interest. See [Note 1 – Summary of Significant Accounting Policies](#) for a discussion of the equity method investment.

**Income Tax Expense.** Income tax expense for the nine months ended September 30, 2021 was \$19.6 million compared to \$13.0 million for the nine months ended September 30, 2020, an increase of \$6.6 million or 50.5%. Our effective tax rate was 29.0% and 39.1% for the nine months ended September 30, 2021 and 2020, respectively. The change in income tax expense was primarily a result of an increase in taxable operating income. For the nine months ended September 30, 2021, the effective tax rate differed from federal and state statutory rates primarily due to non-deductible executive compensation, and non-deductible public offering costs offset by excess tax benefits related to equity-based compensation.

### Liquidity and Capital Resources

Our principal source of liquidity is our operating cash flow, which is supplemented by extended payment terms from our suppliers and our Revolving Credit Facility (the “Revolver”), which provides for revolving credit of up to \$100.0 million, subject to availability. Our principal liquidity requirements are labor costs, including salaries, bonuses, benefits and travel-related expenses, product and supply costs, third-party customer service, billing and collections and logistics costs and patient equipment capital expenditures. Our future capital expenditure requirements will depend on many factors, including our revenue growth rates. Our capital expenditures are made in advance of patients beginning service. Certain operating costs are incurred at the beginning of the equipment rental period and during initial patient set up. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, results of operations, and financial condition would be materially and adversely affected. We believe that our operating cash flow, together with our existing cash, cash equivalents, and Revolver, will continue to be sufficient to fund our operations and growth strategies for at least the next 12 months.

Apria, Inc. is a holding company and our operations will be conducted entirely through our subsidiaries. Our ability to generate cash to pay applicable taxes at assumed tax rates and pay cash dividends we declare, if any, is dependent on the earnings and the receipt of funds from Apria Healthcare Group Inc. (“Apria Healthcare Group”) and its subsidiaries via dividends or intercompany loans. Deterioration in the financial condition, earnings or cash flow of Apria Healthcare Group and its subsidiaries for any reason could limit or impair their ability to pay such distributions. Additionally, the terms of our financing arrangements, including the Term Loan A Facility (the “TLA”) and the Revolver, contain covenants that may restrict Apria Healthcare Group and its subsidiaries from paying such distributions, subject to certain exceptions.

On December 11, 2020, we entered into the credit facility amendment to incur \$260.0 million of Incremental Term Loans. Net proceeds from the Incremental Term Loans were used to fund a \$200.3 million dividend payment to our stockholders and a \$9.7 million distribution to stock appreciation rights (“SARs”) holders declared and paid in December 2020, with the remaining proceeds used to pay fees and expenses in connection with the credit facility amendment and for general corporate purposes. We also declared and paid a \$175.0 million dividend to common stockholders and SARs holders payable in June 2019 and a \$75.0 million dividend to common stockholders in July 2018. We have no current plans to pay dividends on our common stock.

As permitted under the CARES Act, we have elected to defer certain portions of employer-paid FICA taxes otherwise payable from March 27, 2020 to January 1, 2021, which will be paid in two equal installments on December 31, 2021 and December 31, 2022. The amount deferred as of September 30, 2021 was \$14.8 million.

**Cash Flow.** The following table presents selected data from our unaudited condensed consolidated statement of cash flows:

(in thousands)	Nine Months Ended September 30,	
	2021	2020
Net cash provided by operating activities	\$ 148,822	\$ 158,939
Net cash used in investing activities	(98,117)	(72,532)
Net cash used in financing activities	(29,405)	(20,973)
Net increase in cash and cash equivalents	21,300	65,434
Cash and cash equivalents at beginning of period	195,197	74,691
Cash and cash equivalents at end of period	\$ 216,497	\$ 140,125

*Comparison of Nine Months Ended September 30, 2021 and September 30, 2020.* Net cash provided by operating activities for the nine months ended September 30, 2021 was \$148.8 million compared to \$158.9 million for the nine months ended September 30, 2020, a decrease of \$10.1 million. The decrease in net cash provided by operating activities was primarily the result of the following:

- \$45.1 million net decrease in cash resulting from the change in operating assets and liabilities, net of effects from acquisitions, due primarily to a decrease in legal reserves of \$31.3 million, a decrease in cash provided by accrued expenses and other of \$16.5 million, and a decrease in cash provided by accounts receivable of \$13.0 million, partially offset by a decrease in cash used for accounts payable of \$14.9 million and a decrease in cash used for prepaid expenses and other assets of \$6.8 million; partially offset by
- \$27.7 million increase in net income; and
- \$7.3 million increase in adjustments to reconcile net income to net cash primarily due to an increase in stock-based compensation of \$4.6 million and use of deferred tax assets increased \$5.3 million, offset by a \$4.0 million gain from derecognition of nonfinancial asset.

Net cash used in investing activities for the nine months ended September 30, 2021 was \$98.1 million, compared to \$72.5 million for the nine months ended September 30, 2020, an increase in cash used of \$25.6 million. The primary use of funds in the nine months ended September 30, 2021 was \$87.5 million to purchase patient equipment and property, equipment and improvements and \$25.3 million cash paid for acquisitions, which was partially offset by proceeds from the sale of patient equipment and other of \$12.5 million and preferred distributions from equity method investment of \$3.0 million. The primary use of funds in the nine months ended September 30, 2020 was \$85.8 million to purchase patient equipment and property, equipment and improvements, which was partially offset by proceeds from the sale of patient equipment and other of \$13.3 million.

Net cash used in financing activities for the nine months ended September 30, 2021 was \$29.4 million compared to \$21.0 million for the nine months ended September 30, 2020, an increase in cash used of \$8.4 million. Net cash used in financing activities for the nine months ended September 30, 2021 primarily reflected payments on long-term debt of \$15.6 million, payments on asset financing of \$9.6 million, and payments on tax withholdings from equity-based compensation activity of \$3.8 million. Net cash used in financing activities for the nine months ended September 30, 2020 primarily reflected payments on asset financing of \$17.2 million and payments on long-term debt of \$3.8 million.

**Non-GAAP Financial Information.**

*EBITDA, Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex.* EBITDA is a non-GAAP measure that represents net income for the period before the impact of interest income, interest expense, other income

and expense, income taxes, and depreciation and amortization. EBITDA is widely used by securities analysts, investors and other interested parties to evaluate the profitability of companies. EBITDA eliminates potential differences in performance caused by variations in capital structures, tax positions, the cost and age of tangible assets and the extent to which intangible assets are identifiable. Adjusted EBITDA is a non-GAAP measure that represents EBITDA before certain items that impact comparison of the performance of our business either period-over-period or with other businesses. We use Adjusted EBITDA as a key profitability measure to assess the performance of our business. We believe that Adjusted EBITDA should, therefore, be made available to securities analysts, investors and other interested parties to assist in their assessment of the performance of our business.

Adjusted EBITDA less Patient Equipment Capex is a non-GAAP measure that represents Adjusted EBITDA less purchases of patient equipment net of dispositions (“Patient Equipment Capex”). For purposes of this metric, Patient Equipment Capex is measured as the value of the patient equipment received less the net book value of dispositions of patient equipment during the accounting period. We use Adjusted EBITDA less Patient Equipment Capex as a key profitability measure to assess the performance of our business because our business requires significant capital expenditures to maintain its patient equipment fleet. Some equipment transfers title to patients’ ownership after a prescribed number of fixed monthly rental periods due to contractual commitments. Equipment that does not transfer title wears out or oftentimes is not recovered after a patient’s use of the equipment terminates. We believe that Adjusted EBITDA less Patient Equipment Capex should, therefore, be made available to securities analysts, investors and other interested parties to assist in their assessment of the performance of our business.

Below, we have provided a reconciliation of EBITDA, Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex to our net income, the most directly comparable financial measure calculated and presented in accordance with GAAP. EBITDA, Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex should not be considered alternatives to net income or any other measure of financial performance calculated and presented in accordance with GAAP. Our EBITDA, Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex may not be comparable to similarly titled measures of other organizations because other organizations may not calculate EBITDA, Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex in the same manner as we calculate these measures.

Our uses of EBITDA, Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex have limitations as analytical tools, and you should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, EBITDA and Adjusted EBITDA do not reflect capital expenditure requirements for such replacements or other contractual commitments;
- EBITDA, Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex do not reflect changes in, or cash requirements for, our working capital needs;
- EBITDA, Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex do not reflect the interest expense or the cash requirements necessary to service interest or principal payments on our indebtedness; and
- other companies, including companies in our industry, may calculate EBITDA, Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex measures differently, which reduces their usefulness as a comparative measure.

EBITDA, Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex exclude items that can have a significant effect on our profit or loss and should, therefore, be used in conjunction with, not as substitutes for, profit or loss for the period. We compensate for these limitations by separately monitoring net income from continuing operations for the period.

The following table reconciles net income, the most directly comparable GAAP measure, to EBITDA, Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>Net income</b>	<b>\$ 22,806</b>	<b>\$ 5,700</b>	<b>\$ 47,926</b>	<b>\$ 20,268</b>
Interest (income) expense and other, net	(1,107)	1,043	4,746	3,596
Income tax expense	7,264	6,644	19,615	13,034
Depreciation and amortization	27,896	28,724	86,481	86,915
<b>EBITDA</b>	<b>\$ 56,859</b>	<b>\$ 42,111</b>	<b>\$ 158,768</b>	<b>\$ 123,813</b>
Strategic transformation initiatives:				
Simplify <sup>(a)</sup>	\$ —	\$ 322	\$ —	\$ 1,159
Financial system <sup>(b)</sup>	340	351	1,081	1,414
Other initiatives <sup>(c)</sup>	75	54	114	99
Stock-based compensation one-time award at IPO <sup>(d)</sup>	1,057	—	3,497	—
Stock-based compensation <sup>(e)</sup>	1,530	606	3,825	1,929
Legal settlements <sup>(f)</sup>	—	19,725	1,750	32,525
Acquisition costs <sup>(g)</sup>	402	—	402	—
Offering costs <sup>(h)</sup>	699	1,826	4,151	1,826
<b>Adjusted EBITDA</b>	<b>\$ 60,962</b>	<b>\$ 64,995</b>	<b>\$ 173,588</b>	<b>\$ 162,765</b>
Patient Equipment Capex	(22,040)	(26,425)	(65,822)	(63,482)
<b>Adjusted EBITDA less Patient Equipment Capex</b>	<b>\$ 38,922</b>	<b>\$ 38,570</b>	<b>\$ 107,766</b>	<b>\$ 99,283</b>

- (a) Simplify represents one-time advisory fees and implementation costs associated with a key 2019 business transformation initiative focused on shifting to a patient-centric platform and optimizing end-to-end customer service.
- (b) Costs associated with the implementation of a new financial system.
- (c) Other initiatives include one-time costs associated with customer service initiatives in 2020 and costs associated with moving the corporate headquarters in 2021.
- (d) The offering resulted in a one-time restricted stock unit (“RSUs”) grant to our CFO. The RSUs vest in tranches and are classified as liability awards since each tranche of RSUs can be settled in either cash or shares of our common stock at the CFO’s election. The first tranche of RSUs vested upon completion of the IPO and was settled in cash. The second tranche was settled in cash during the three months ended September 30, 2021. Compensation expense is recognized over the requisite service period subject to continued employment and adjusted each reporting period for changes in the fair value pro-rated for the portion of the requisite service period rendered until settlement.
- (e) Stock-based compensation has historically been granted to certain of our employees and non-employee directors in the form of profit interest units of Apria Holdings LLC, RSUs, performance-based RSUs, and SARs. For time-based only RSUs and SARs, compensation expense for each separately vesting portion of the award is recognized on a straight-line basis over the vesting period for that portion of the award subject to continued service. For RSUs with performance conditions, compensation expense is recognized over the requisite service period subject to management’s estimation of the probability of vesting of such awards. Stock compensation also includes expense related to our long-term incentive plan awards which will be settled in stock.
- (f) In 2021, the amount represents the final settlement amount of a claim brought under the Private Attorneys General Act of California. In 2020, the amount represents the increase in the settlement amount in relation to a series of civil investigative demands from the United States Attorney’s Office for the Southern District of New York. See further discussion at [Note 8](#) - Commitments and Contingencies in our unaudited condensed consolidated financial statements for more information.
- (g) Acquisition costs include one-time costs associated with the acquisition of certain assets of Airway Breathing Co.
- (h) Offering costs represent one-time costs relating to public offerings. As we did not receive any proceeds from the offerings, these costs were expensed as incurred in SD&A expenses in the unaudited condensed consolidated statements of income.

**Contractual Obligations.** There were no material changes to our contractual obligations from what we previously disclosed in our 2020 Form 10-K.

**Accounts Receivable.** Accounts receivable increased to \$75.5 million as of September 30, 2021 from \$74.8 million at December 31, 2020, an increase of \$0.7 million. Days sales outstanding (calculated as of each period-end by dividing accounts receivable, net by the rolling average of total net revenues) were 30 days at September 30, 2021 compared to 29 days at December 31, 2020.

**Unbilled Receivables.** Included in accounts receivable are earned but unbilled receivables of \$15.9 million and \$13.1 million at September 30, 2021 and December 31, 2020, respectively. Delays, ranging from a single day to several weeks, between the date of service and billing can occur due to delays in obtaining certain required Payor-specific documentation from internal and external sources. Earned but unbilled receivables are aged from date of service and are considered in our analysis of historical performance and collectability.

**Inventories and Patient Equipment.** Inventories consist primarily of respiratory supplies and items used in conjunction with patient equipment. Patient equipment consists of respiratory and home medical equipment that is provided to in-home patients for the course of their care plan, normally on a rental basis, and subsequently returned to us for redistribution after cleaning and maintenance is performed. We maintain inventory and patient equipment at levels we believe will provide for the needs of our patients.

**Long-Term Debt.** On June 21, 2019, we entered into a credit agreement with Citizens Bank and a syndicate of lenders for both a TLA of \$150.0 million and a Revolver of \$100.0 million. Proceeds from the TLA were used to fund a \$175.0 million dividend payment to common stockholders and distribution to SARs holders. On December 11, 2020, we entered into the credit facility amendment to obtain \$260.0 million of Incremental Term Loans. Net proceeds from the Incremental Term Loans were used to fund a \$200.3 million dividend payment to our stockholders and a \$9.7 million distribution to SARs holders declared and paid in December 2020, with the remaining proceeds used to pay fees and expenses in connection with the credit facility amendment and for general corporate purposes.

The credit agreement permits the interest rate to be selected at our option at either adjusted London Interbank Offered Rate (“Adjusted LIBOR”) or alternative base rate plus their respective applicable margin. Adjusted LIBOR is the rate for Eurodollar deposits for the applicable interest period while the Alternate Base Rate is the highest of (i) the Administrative Agent’s “Prime Rate”, (ii) the Federal Funds Effective Rate plus 0.50%, and (iii) one-month Adjusted LIBOR plus 1.00%. Furthermore, Adjusted LIBOR is subject to a 0.50% per annum floor and the alternative base rate is subject to a 1.50% per annum floor. Additionally, the margin applied to both the TLA and Revolver is determined based on total net leverage ratio. Total net leverage ratio is defined as net debt, which represents indebtedness minus up to \$25.0 million in cash and cash equivalents over consolidated EBITDA as defined under the credit agreement. The following is a summary of the additional margin and commitment fees payable on both the TLA and available Revolver:

Level	Total Net Leverage Ratio	Applicable Margin for Adjusted LIBOR Loans	Applicable Margin for Alternative Base Rate Loans	Commitment Fee
I	Greater than or equal to 3.00x	2.75 %	1.75 %	0.35 %
II	Greater than or equal to 2.50x but less than 3.00x	2.50 %	1.50 %	0.30 %
III	Greater than or equal to 1.50x but less than 2.50x	2.25 %	1.25 %	0.25 %
IV	Less than 1.50x	2.00 %	1.00 %	0.20 %

The TLA matures on June 21, 2024 and we are required to make quarterly principal payments on the TLA beginning June 30, 2020. Upon entering into the credit facility amendment the amount of those quarterly principal payments was adjusted to account for the Incremental Term Loans. We expect to refinance, renew or replace the TLA prior to its maturity in June 2024 or to repay it with cash from operations. The table below is a summary of the expected timing of remaining principal repayments each fiscal year:

<b>(in thousands)</b>	
2021 (remainder)	\$ 5,208
2022	36,458
2023	41,667
2024	302,084

The credit agreement encompassing the TLA and Revolver permits, subject to certain exceptions, an increase in our TLA or our Revolver, as well as the ability to incur additional indebtedness, as long as it does not exceed a total net leverage ratio of 3.00x. The credit agreement requires mandatory prepayments upon the occurrence of certain events, such as dispositions and casualty events, subject to certain exceptions. The TLA or Revolver may be voluntarily prepaid at any time without any premium or penalty.

Apria Healthcare Group's assets and equity interests of Apria Healthcare Group and all present and future wholly-owned direct domestic subsidiaries of Apria Healthcare Group, with certain exceptions, are pledged as collateral for the TLA and Revolver. The credit agreement contains a financial covenant requiring us to maintain a total net leverage ratio less than 3.50x. The credit agreement also contains negative covenants that, among other things, restrict, subject to certain exceptions, the ability of Apria Healthcare Group and its restricted subsidiaries to incur additional indebtedness and guarantee indebtedness, create or incur liens, engage in mergers or consolidations, dispose of assets, pay dividends and distributions or repurchase capital stock, repay certain indebtedness, make investments and engage in certain transactions with affiliates.

As of September 30, 2021, no amounts were outstanding under the Revolver, there were \$15.8 million outstanding letters of credit, and additional availability under the Revolver net of letters of credit outstanding was \$84.2 million. We were in compliance with all debt covenants set forth in the TLA and Revolver as of September 30, 2021.

In accordance with ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, we record origination and other expenses related to certain debt issuance costs as a direct deduction from the carrying amount of the debt liability. These expenses are deferred and amortized using the straight-line method over the stated life, which approximates the effective interest rate method. Amortization of deferred debt issuance costs are classified within interest expense in our unaudited condensed consolidated statements of income and was \$0.8 million and \$0.4 million for the nine months ended September 30, 2021 and 2020, respectively.

Interest expense, excluding deferred debt issuance costs discussed above, was \$8.1 million and \$3.7 million for the nine months ended September 30, 2021 and 2020, respectively. The interest rate was 2.50% as of September 30, 2021 and December 31, 2020. Interest paid on debt totaled \$8.0 million and \$3.7 million for the nine months ended September 30, 2021 and 2020, respectively.

### **Commitments and Contingencies**

From time to time we enter into certain types of contracts that contingently require us to indemnify parties against third-party claims. The contracts primarily relate to: (i) certain asset purchase agreements, under which we may provide customary indemnification to the seller of the business being acquired; (ii) certain real estate leases, under which we may be required to indemnify property owners for environmental and other liabilities, and other claims arising from our use of the applicable premises; and (iii) certain agreements with our officers, directors and employees, under which we may be required to indemnify such persons for liabilities arising out of their relationship with us. In addition, we issued certain letters of credit under our Credit Facility as described under "Liquidity and Capital Resources—Long-Term Debt" above.

The terms of such obligations vary by contract and in most instances a specific or maximum dollar amount is not explicitly stated therein. Generally, amounts under these contracts cannot be reasonably estimated until a specific claim is asserted. Consequently, no liabilities have been recorded for these obligations on our balance sheets for any of the periods presented.

### **Critical Accounting Policies and Estimates**

The preparation of our unaudited condensed consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect reported amounts and related disclosures. We have discussed the policies and estimates that we believe are critical and require the use of complex judgment in their application in our 2020 Form 10-K. Except for the new critical accounting policy below, there have been no material changes in the Company's critical accounting policies as compared to the critical accounting policies described in the Company's 2020 Form 10-K.

**Business Combinations**—Our acquisitions have been accounted for using the purchase method of accounting under ASC 805, *Business Combinations* ("ASC 805"). We account for all transactions and events in which we obtain control over a business under ASC 805 by establishing the acquisition date and recognizing the fair value of all assets acquired and liabilities assumed. Our acquisitions have historically been made at prices above the fair value of identifiable net assets, resulting in goodwill.

While we use our best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business acquisition date, the estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the purchase price allocation period, which is generally one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. For changes in the valuation of intangible assets between the preliminary and final purchase price allocation, the related amortization is adjusted in the period it occurs. Subsequent to the purchase price allocation period, any adjustment to assets acquired or liabilities assumed is included in operating results in the period in which the adjustment is determined.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Our exposure to market risk relates to fluctuations in interest rates from borrowings under the Credit Facility. Our letter of credit fees and interest accrued on our debt borrowings carry a floating interest rate which is tied either to Adjusted LIBOR or alternative base rate plus their respective applicable margin and therefore are exposed to changes in interest rates. As of September 30, 2021, there was \$385.4 million outstanding on the TLA, \$15.8 million outstanding letters of credit, and additional availability under the Revolver, net of letters of credit outstanding, was \$84.2 million.

### **Item 4. Controls and Procedures**

#### **Disclosure Controls and Procedures**

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. The Company's management, with the participation of the Company's Chief Executive Officer, and the Company's Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that, as of September 30, 2021, the Company's disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

### **Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II — OTHER INFORMATION**

### **Item 1. Legal Proceedings**

The information required with respect to this Item 1 can be found under [Note 8](#) – Commitments and Contingencies to the unaudited condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

### **Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in our 2020 Form 10-K, which could materially affect our business, financial condition or future results. Except for the revised risk factor in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021, there have been no material changes to the risk factors disclosed in our 2020 Form 10-K. The risks described in our 2020 Form 10-K and subsequent 10-Qs are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

Not applicable.

### **Item 5. Other Information**

None.

## Item 6. Exhibits

Exhibit No.	Description
3.1	<a href="#">Amended and Restated Certificate of Incorporation of the Registrant</a> (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on February 16, 2021)
3.2	<a href="#">Amended and Restated Bylaws of the Registrant</a> (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on February 16, 2021)
31.1†	<a href="#">Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2†	<a href="#">Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1††	<a href="#">Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2††	<a href="#">Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS†	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH†	Inline XBRL Taxonomy Extension Schema Document
101.CAL†	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF†	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB†	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE†	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104†	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

† Filed herewith.

†† Furnished herewith.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.



## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Daniel J. Starck, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Apria, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) [Reserved];
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2021

/s/ Daniel J. Starck  
Daniel J. Starck  
Chief Executive Officer  
(Principal Executive Officer)

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## CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Debra L. Morris, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Apria, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) [Reserved];
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2021

/s/ Debra L. Morris  
Debra L. Morris  
Chief Financial Officer  
(Principal Financial Officer)

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**Certification of Chief Executive Officer  
Pursuant to 18 U.S.C. Section 1350,  
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the quarterly report of Apria, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2021 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, the undersigned, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Daniel J. Starck

Daniel J. Starck  
Chief Executive Officer  
(Principal Executive Officer)

November 4, 2021

*A signed original of this certification required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request. The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.*

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**Certification of Chief Financial Officer  
Pursuant to 18 U.S.C. Section 1350,  
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the quarterly report of Apria, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2021 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, the undersigned, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Debra L. Morris

Debra L. Morris  
Chief Financial Officer  
(Principal Financial Officer)

November 4, 2021

*A signed original of this certification required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request. The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.*

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