

December 13, 2010

Financial Accounting Standards Board  
401 Merritt Seven  
P.O. Box 5116  
Norwalk, CT 06856-5116  
Attn: Technical Director  
(File Reference 1850-100)

Thank you for providing us the opportunity to comment on the Proposed Accounting Standards Update entitled "Leases (Topic 840)", issued on August 17, 2010 and hereafter referred to as the "Proposed ASU."

By way of background, Apria Healthcare Group Inc. (the "Company") is a provider of home healthcare products and services in the United States, offering a comprehensive range of home respiratory therapy, home infusion therapy and home medical equipment services to over two million patients annually in all 50 states throughout the United States from approximately 500 Company locations. For the year ended December 31, 2009 the Company's net revenues were approximately \$2.1 billion. Of the Company's total revenue of \$2.1 billion, revenue related to medical equipment rental was approximately \$700 million. The Company's average rental revenue for a single rental item is in the range of \$80 to \$100 per month. On a daily basis the Company averages 10,500 deliveries of rental medical equipment to patients. The Company is reimbursed primarily through approximately 1,800 contractual agreements with managed care insurance companies and governmental payors. Medical equipment required by the patient is prescribed by a referring physician or other medical provider and is used to treat the medical condition of the patient. Rental revenue is recognized over the rental period which commences on delivery of the medical equipment to the patient. Rental periods can range from one day to several years depending on the medical condition of the patient as determined by the referring physician or other medical provider. The Company cannot terminate the lease early; the patient has the unilateral right to continue renting the equipment as long as they require the equipment. Generally, our rental agreements with the patients are on a month to month basis. In almost all cases the length of time that the patient will need the medical equipment is not determinable at the inception of the rental period. Typically, the medical equipment that is rented to patients is returned to the Company when the medical condition of the patient indicates that they no longer require the equipment. Once equipment is returned to the Company, the equipment is often rented out to another patient. We do not rent out our medical equipment to companies that would be required to report this activity as a *lessee* under the Proposed ASU; this medical equipment is all rented to patients who would not be preparing financial statements that would require them to account for the rental of equipment as a *lessee* under the Proposed ASU. We currently account for these leases as operating leases and would be under the performance obligation approach in the Proposed ASU.

While we are generally supportive of the model described in the Proposed ASU from the perspective of the *lessee*, we have significant concerns regarding the application of the Proposed ASU model as it relates to *lessors* such as the Company. In particular:

1. The Company believes the Statement of Financial Accounting Standard ("SFAS") No. 13 for lessors, including operating leases, should be retained for lessors. The primary issues with lease accounting have been for *lessee* accounting, not *lessor* accounting. This view has been put forward by many others in their comments to the Proposed ASU, including Financial Reporting

Advisors of Chicago, Illinois in their comment letter dated November 30, 2010. We agree with their comments regarding lessor accounting. Additionally, we do not believe that readers and users of our financial statements will have a clearer understanding of our business and the financial position of the Company if the accounting by *lessors* in the Proposed ASU is implemented. In fact, we believe that our financial statements will be more difficult for readers and users to understand. In our business, we rent millions of pieces of medical equipment to patients where we do not know what the rental period will ultimately be at the inception of the lease and we get paid a contracted rental rate by insurance carriers and governmental payors based on the actual rental period. Implementing the proposed ASU in its present form would make our lease accounting considerably more difficult and complicated than it currently is without providing any tangible benefit to the readers of our financial statements.

2. The burden and cost to create, implement and maintain the new technology in the Company's information systems required to track our millions of leases in order to comply with the Proposed ASU would likely be substantial and could easily be in the millions of dollars. Additionally, there would be ongoing increased costs due to changes in processes that would be a result of the implementation of this Proposed ASU. We understand the FASB has performed significant outreach activities to determine whether the benefits of the *lessee* model are justified by the cost of implementation, however, it is unclear to us that a similar effort has been put forth for lessors. We are not aware of significant criticisms of the current lessor accounting model under SFAS No. 13, so it is unclear how the costs of the new *lessor* model is justified given the lack of demand for change to the current model.
3. If the FASB continues with changes in the Proposed ASU, then we believe that the short-term lease exception should be modified to exclude leases that are on a month to month basis with a lease term that cannot be reliably measured at the inception of the lease agreement is undeterminable at the inception of the lease agreement. Our rental agreements are month to month contracts with an undeterminable lease period at the inception of the agreement. The ultimate rental term is based on the medical condition and requirements of the patient which can vary substantially from patient to patient.

The remainder of this letter sets out our views in more detail. Please note that we have only responded to those questions posed in the Proposed ASU that address aspects of the proposed guidance with which we have comments or concerns.

If you have any questions or require further information regarding the contents of this letter, please contact Peter A. Reynolds, Chief Accounting Officer, Apria Healthcare Group Inc. at (949) 639-2000 or by e-mail at [pete.reynolds@apria.com](mailto:pete.reynolds@apria.com).

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1. **Question 2(a): Lessors – Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term, and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?**

*Response: We respectfully disagree. We believe that the Proposed ASU for lessor accounting creates more confusion and less clarity for lessor accounting as compared with the accounting model provided by SFAS No. 13. We do not believe that setting up a lease receivable asset and offsetting it with a lease obligation liability will provide the user or reader of our financial statements with any significant additional information or clarity. We believe that the model currently provided under SFAS No. 13 is appropriate and does not need to be changed.*

2. **Question 9: Lease Payments – Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why? Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be measured reliably? Why or why not?**

*Response: We respectfully disagree. We believe that neither contingent rentals nor expected payments in renewal periods should be included in the measurement of assets and liabilities. Considering the number of leases that the Company has, coupled with the fact that the term of the lease is not determinable at the inception of the lease and the rental period can vary from one day to several years, it would be nearly impossible to estimate the expected payments related to each lease. The estimate would be constantly changing and could mislead the financial statement reader. The revenue stream of our Company is pretty straightforward as it exists today; we rent medical equipment to patients for a period of time for which we get paid a contracted amount by the insurance company or governmental insurer of the patient based on actual usage. As we mentioned above, we believe that the current accounting model for lessors under SFAS No. 13 is effective, straightforward and understandable. If the FASB continues with the guidance in the Proposed ASU then we suggest modifying the short-term lease exception as we described in our summary comments and this may alleviate the Company's challenges of estimating future lease payments.*

- 3. Question 14: Statement of Cash Flows – Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?**

*Response: If the proposed standards are adopted, the cash flows arising from leases separately on the statement of cash flows of a lessee would seem reasonable. Moreover, the Company does not agree with the proposed standard in regards to lessor accounting, and believes that the current accounting rules provide appropriate clarity to the financial statement user, we would propose leaving the statement of cash flows as it currently stands. If the Proposed ASU is adopted and disclosure is not required in the statement of cash flows, then it would make sense to provide additional relevant disclosure within the notes to the financial statements instead.*