

# APRIA HEALTHCARE GROUP INC. GOVERNANCE OF THE COMPANY

## Corporate Governance Guidelines

The Board of Directors (the “Board”) of Apria Healthcare Group Inc. (the “Company”) has adopted these Corporate Governance Guidelines (“Governance Guidelines”) which, when taken together with the Charters of the Company’s Committees, provide a framework for the Company’s corporate governance.

### Board Mission and Responsibilities

*Mission Statement.* The Company’s primary objective is to maximize stockholder value over the long term while adhering to the laws of the jurisdictions within which it operates and observing high ethical standards.

*Corporate Authority and Responsibility.* All corporate authority resides in the Board as fiduciaries on behalf of the Company’s stockholders. The Board delegates authority to management to pursue the Company’s mission. Management, not the Board, is responsible for managing the Company. The Board retains responsibility to recommend candidates to the stockholders for election to the Board. The Board also retains responsibility, among other things, for selection and evaluation of the Chief Executive Officer, oversight of succession plans, determination of senior management compensation, approval of the annual budget, and review of systems, procedures and controls. The Board also advises management with respect to strategic plans.

### Board Operations

*Board Agenda.* The Chairman of the Board (“Chair” or “Chair of the Board”) in coordination with the Chief Executive Officer shall set the agenda for each Board meeting, taking into account suggestions from members of the Board.

*Strategic Planning.* The Board shall hold an annual strategic planning session. The timing and agenda for this meeting are to be suggested by the Chief Executive Officer.

*Independent Advice.* The Board or any Committee may seek legal or other expert advice from a source independent of management. Generally, this would be with the knowledge of the Chief Executive Officer and the Chair of the Board.

*Access to Top Management.* Board members are free to contact members of senior management and are encouraged to coordinate their contacts through the Chief Executive Officer. Additionally, regular attendance and participation in Board meetings by senior management is encouraged as appropriate.

*Executive Meetings of Independent Directors.* An executive meeting of independent Directors shall be held during each Board meeting. The Chair shall lead these sessions.

*Educational Programs.* Within two years of first becoming a Director, each Director should attend, at the Company’s cost, an accredited one or two-day educational program for Directors. Following this initial education, each Director should attend one additional educational program in each five-year period of service on the Company’s Board.

*Board Evaluation.* The Corporate Governance and Nominating Committee shall be responsible for evaluating Directors as part of its process for recommending Director nominees to the Board. The Corporate Governance and Nominating Committee shall be responsible for coordinating an annual evaluation by the Directors of the Board's performance and procedures.

*Written Guidelines and Policies.* The Board shall maintain written corporate governance guidelines and operational policies which will be reviewed annually by the Corporate Governance and Nominating Committee.

## **Board Structure**

*Positions of Chair and Chief Executive Officer.* The positions of Chair and Chief Executive Officer shall be filled by separate persons and the Chair shall be an Independent Director.

*Board Composition.* Independent Directors shall constitute a substantial majority of the Board.

*Number of Directors.* The Board shall assess its size from time to time. It is the Board's philosophy that smaller Boards are more effective.

*Independent Directors.* "Independent Director" means a Director that meets the definition of "independent director" as that term is defined by the New York Stock Exchange pursuant to Section 303A(2) of the New York Stock Exchange Listing Standards, and, in the case of the Audit Committee, a Director that meets the audit committee member independence requirements established by the Securities and Exchange Commission pursuant to Section 301 of the Sarbanes-Oxley Act of 2002.

## **Directors**

*Nominees for Election to the Board.* The Corporate Governance and Nominating Committee shall recommend nominees to the full Board for annual elections of Directors. The Committee shall seek and welcome input from all Directors and stockholders.

*Retirement; Term Limits.* Directors shall submit their resignation effective at the Annual Meeting immediately preceding the first to occur of their 75th birthday or the expiration of 15 years of service as a Director of the Company following the Company's 2007 Annual Meeting.

*Changes in Professional Responsibility.* The Board shall consider whether a change in an individual's professional responsibilities directly or indirectly impacts that person's ability to fulfill Directorship obligations. To facilitate the Board's consideration, the Chief Executive Officer and other employee Directors shall submit a resignation as a matter of course upon retirement, resignation or other significant change in professional roles.

*Director Compensation and Stock Ownership.* From time to time, the compensation of Directors shall be reviewed by the Compensation Committee, which shall make recommendations to the full Board. The Board's philosophy is that a substantial portion of Director compensation shall be equity-based.

*Chief Executive Officer Evaluation.* The Compensation Committee shall be responsible for coordinating an annual evaluation of the Chief Executive Officer by the Independent Directors. The Independent Directors will also determine guidance for the Compensation Committee with respect to the Chief Executive Officer's compensation. The Chair of the Compensation Committee shall be the liaison with the Chief Executive Officer.

*Management Succession.* The Board, with the assistance of the Corporate Governance and Nominating Committee and the Compensation Committee, shall coordinate with the Chief Executive Officer to seek to ensure that a successor for emergencies is designated at all times and that a formalized process governs long-term management development and succession. The Chief Executive Officer shall report to the Board annually about development of senior management personnel and succession plans.

*Outside Board Memberships for Senior Management.* The Chief Executive Officer and other members of senior management shall seek the approval of the Board before accepting outside board memberships, and the Board generally discourages more than one corporate board and one not-for-profit board membership.

*Limitation on Other Board Memberships for Independent Directors.* Independent Directors shall not serve concurrently as a member of more than a total of five corporate boards, including the Board of the Company.

*Stock Ownership Requirements.* Each Independent Director shall adhere to the Stock Ownership Requirements for Directors, as promulgated by the Board.

## **Committees**

*Standing Committees.* The standing Board committees (each, a "Committee," and collectively, the "Committees") shall be the Audit Committee, the Compliance Committee, the Compensation Committee, and the Corporate Governance and Nominating Committee. Each Committee shall maintain a written charter approved by the Board. Material Committee actions shall be promptly reported to the Board. A Director may attend any Committee meeting. The Chair of the Board shall recommend periodic rotation of Committee assignments as appropriate. From time to time, the Board may form a new Committee or special committee to undertake specific tasks or disband a current Committee or special committee, depending on the circumstances and in accordance with the Company's corporate governance documents and applicable law.

*Committee Membership.* Each Committee shall consist of no fewer than three members, or such number as determined by the Board, subject to any requirements or limitations in the Company's certificate of incorporation or by-laws. Each Committee member, in the judgment of the Board, shall be an Independent Director and shall meet such other qualifications as determined by the Board or set forth in the Committee's Charter. The Board, after due consideration of the recommendation of the Board's independent Chair and the Corporate Governance and Nominating Committee, shall appoint the members of each Committee and designate the Committee's Chair. Each Committee member will serve at the pleasure of the Board for such term as the Board may decide or until such Committee member is no longer a Board member.

*Committee Meetings.* Unless otherwise set forth in its written Charter, each Committee shall follow the procedures and standards for holding and conducting meetings set forth in these Governance Guidelines.

Each Committee shall meet, in person and/or telephonically, as frequently as it deems necessary and appropriate in its judgment to carry out its responsibilities under these Governance Guidelines and its written Charter. Each Committee's Chair shall, in consultation with the other members of the Committee and appropriate officers of the Company, establish the agenda for each Committee meeting. Each Committee member may submit items to be included on the agenda. Committee members may also raise subjects that are not on the agenda at any meeting. The Committee Chair or a majority of the Committee members may call a meeting of the Committee at any time. The Committee may hold executive sessions at its discretion.

A majority of the number of the Committee members shall constitute a quorum for conducting business at a meeting of the Committee. The act of a majority of Committee members present at a Committee meeting at which a quorum is in attendance shall be the act of the Committee, unless a greater number is required by law, the Company's certificate of incorporation or its by-laws. Unless otherwise set forth in its Charter, each Committee's Chair shall supervise the conduct of the meetings and shall have other responsibilities which the Committee may designate from time to time.

Each Committee may request any officer or employee of the Company, or any representative of the Company's advisors, to attend a meeting or to meet with any members or representatives of the Committee.

The Secretary for the Committee shall be the Secretary of the Company or such other individual as may be appointed by the Committee.

*Committee Authority and Responsibilities.* Each Committee shall exercise its business judgment in carrying out the responsibilities described in these Governance Guidelines and its Charter in a manner that the Committee members reasonably believe to be in the best interests of the Company and its stockholders.

In addition to the primary authority and responsibilities set forth in its Charter, each Committee has the following authority and responsibilities:

(1) Each Committee, and each member of a Committee in his or her capacity as such, shall be entitled to rely, in good faith, on information, advice, opinions, reports or statements, or other information prepared or presented to them by (a) officers or other employees of the Company, whom the Committee or such member believes to be reliable and competent in the matters presented, and (b) consultants, legal counsel, or other persons as to matters which the Committee or such member believes to be within the professional competence of such persons.

(2) Each Committee may form and delegate authority to subcommittees as it deems appropriate.

(3) The Chair of each Committee shall make regular verbal reports to the Board concerning the actions and recommendations of the Committee. Each

Committee shall decide the manner in which, when and how often such reports are made to the Board; however, at least annually, a report shall include such Committee's assessment of the Board's performance and procedures.

(4) At least annually, each Committee shall (a) review and reassess the adequacy of its Charter and recommend any proposed changes to the Board for approval, and (b) evaluate its own performance, such evaluation to be done either in conjunction with the Board's annual evaluation or separately by the Committee. The Committee shall conduct its review and evaluation in such manner as it deems appropriate.

(5) Each Committee shall perform any other duties or responsibilities delegated to the Committee by the Board from time to time.

(6) Each Committee has the authority to retain, compensate and terminate outside advisors and consultants as it determines appropriate (including without limitation, search firms to assist in the identification of Director candidates in the case of the Corporate Governance and Nominating Committee, and including without limitation, legal counsel, public accountants or other persons assisting in the evaluation of Director or senior management compensation in the case of the Compensation Committee) to assist the Committee in the performance of its functions and responsibilities, all at the Company's expense.

### **Interpretation of Governance Guidelines and Committee Charters**

These Governance Guidelines and each Committee's Charter should be interpreted in the context of all applicable laws and the Company's certificate of incorporation, by-laws and other corporate governance documents. The purpose of these Governance Guidelines and the Committee Charters is to assist the Board and each Committee in the exercise of its responsibilities and to serve the best interests of the Company and its stockholders. These Governance Guidelines and the Committee Charters are intended to serve as guidelines and to create a flexible framework within which the Board and each Committee may operate and not as a set of legally binding obligations. No provision of these Governance Guidelines or a Committee's Charter is intended to create any right in favor of any third party, including without limitation any stockholder, officer, Director or employee of the Company or any subsidiary thereof, in the event of a failure to comply with any provision thereof. Nothing contained in these Governance Guidelines or a Committee's Charter is intended to expand applicable standards of liability under statutory or regulatory requirements for the Directors of the Company or members of the Committee.

**(Corporate Governance Guidelines as revised October 10, 2007)**