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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under §240.14a-12

ONCOSEC MEDICAL INCORPORATED

(Name of Registrant as Specified In Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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ONCOSEC MEDICAL INCORPORATED

To the Stockholders of OncoSec Medical Incorporated:

Notice is hereby given that OncoSec Medical Incorporated, a Nevada corporation, will be holding its Annual Meeting of Stockholders on March 2, 2012, at 10:00 a.m., local time, at the company's executive offices located at 4690 Executive Drive, Suite 250, San Diego, California 92121. You are cordially invited to attend.

The Notice of Annual Meeting of Stockholders and Proxy Statement, which describe the formal business to be conducted at the meeting, follow this letter. After reading the Proxy Statement, please promptly mark, sign, and return the enclosed proxy in the prepaid envelope (for mailing in the United States only) to assure that your shares will be represented. Your shares cannot be voted unless you date, sign, and return the enclosed proxy, attend the Annual Meeting in person or vote your shares using the automated Internet or phone system. Regardless of the number of shares you own, your careful consideration of, and vote on, the matters before our Stockholders are important.

Whether or not you attend the Annual Meeting, it is important that your shares be represented and voted at the meeting. We encourage you to sign and return your proxy before the meeting so that your shares will be represented and voted at the meeting even if you cannot attend in person. If you decide to attend the Annual Meeting, you will be able to vote in person, even if you have previously submitted your proxy.

A copy of OncoSec's 2011 Annual Report is also enclosed.

The Board of Directors and management look forward to seeing you at the Annual Meeting.

Sincerely,

/s/ PUNIT DHILLON

Punit Dhillon
President and Chief Executive Officer

February 7, 2012

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ONCOSEC MEDICAL INCORPORATED

4690 Executive Drive, Suite 250
San Diego, California 92121
(855) 662-6732

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders of OncoSec Medical Incorporated.:

The 2012 Annual Meeting of Stockholders of OncoSec Medical Incorporated (the "Company," "OncoSec," "we" or "our") will be held on March 2, 2012 at 10:00 a.m., Pacific Time, at our principal executive offices at 4690 Executive Drive, Suite 250, San Diego, California 92121, for the following purposes, which are further described in the accompanying proxy statement:

(1) to elect four directors to our Board of Directors to serve for a term of one year or until their successors are duly elected and qualified;

(2) to ratify the appointment of Mayer Hoffman McCann P.C. as the Company's independent registered public accounting firm for the fiscal year ending July 31, 2012;

(3) to approve the adoption of the Company's 2011 Stock Incentive Plan;

(4) to approve the amendment and restatement of the Company's Bylaws; and

(5) to transact other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

The Board of Directors recommends a vote "for" each of the nominees and for each proposal.

Only stockholders of record at the close of business on January 30, 2012 are entitled to receive notice of and to vote at the Annual Meeting.

To obtain directions to attend the Annual Meeting and vote in person, please call Investors Relations at (855) 662-6732 ext 520. We have enclosed our 2011 Annual Report, including financial statements, and the Proxy Statement with this Notice of Annual Meeting.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on March 2, 2012

The Notice of Annual Meeting of Stockholders, Proxy Statement and 2011 Annual Report are available to stockholders at: www.proxyvote.com.

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, YOU ARE REQUESTED TO SIGN, DATE AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE IN THE ENCLOSED POSTAGE PREPAID ENVELOPE. YOUR PROXY IS BEING SOLICITED BY THE COMPANY'S BOARD OF DIRECTORS.

By order of the Board of Directors,

/s/ PUNIT DHILLON

Punit Dhillon
President and Chief Executive Officer

San Diego, California
February 7, 2012

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ONCOSEC MEDICAL INCORPORATED

PROXY STATEMENT

GENERAL INFORMATION

We are sending you this proxy statement in connection with the solicitation of proxies by our Board of Directors for use at the 2012 Annual Meeting of Stockholders of OncoSec Medical Incorporated, a Nevada corporation (the "Company," "OncoSec," "we" or "our"), which we will hold on March 2, 2012 at 10:00 a.m., Pacific Time, at our principal executive offices at 4690 Executive Drive, Suite 250, San Diego, California 92121.

The record date for the Annual Meeting is January 30, 2012. All holders of record of our common stock on the record date are entitled to notice of and to vote at the Annual Meeting and any meetings held upon any adjournment or postponement thereof. This proxy statement is being initially distributed to our stockholders on or about February 7, 2012.

Whether or not you plan to attend the Annual Meeting in person, please date, sign and return the enclosed proxy card as promptly as possible, in the postage prepaid envelope provided, to ensure that your shares will be voted at the Annual Meeting. You may revoke your proxy at any time prior to its use by filing with our Secretary an instrument revoking it or a duly executed proxy bearing a later date or by attending the Annual Meeting and voting in person.

Unless you instruct otherwise in the proxy, any proxy that is not revoked will be voted at the Annual Meeting:

- for each nominee to our Board of Directors;
- to ratify the appointment of Mayer Hoffman McCann P.C., as the Company's independent registered public accounting firm for the fiscal year ending July 31, 2012;
- to approve the adoption of the Company's 2011 Stock Incentive Plan;
- to approve the amendment of the Company's Bylaws; and
- as recommended by our Board of Directors, in its discretion, with regard to all other matters as may properly come before the Annual Meeting or any adjournment or postponement thereof.

Voting Information

The presence, in person or by a proxy relating to any matter to be acted upon at the Annual Meeting, of the holders of a majority of the outstanding shares of common stock will constitute a quorum for purposes of the Annual Meeting. Abstentions, broker non-votes, and shares as to which authority to vote on any proposal is withheld, are each included in the determination of the number of shares present at the Annual Meeting for purposes of obtaining a quorum.

Under our Bylaws ("Bylaws"), when a quorum is present at any meeting, directors are elected by a plurality of the votes cast by the stockholders entitled to vote in the election of directors. The affirmative vote of a plurality of all of the votes cast at a meeting at which a quorum is present is necessary for the election of each of the nominees for director. For purposes of the election of directors, abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote, although they will count toward the presence of a quorum. Broker non-votes occur when a broker or bank holding a customer's securities in street name does not vote on a particular proposal because the broker or bank has not received voting instructions from the customer on certain matters for which the broker is required to have instructions in order to vote.

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Under our Bylaws, the affirmative vote of the holders of a majority of the shares represented at the meeting and entitled to vote on the subject matter is necessary for the approval of the other proposals set forth in this Proxy Statement, as explained under each proposal. Abstentions and broker non-votes will be counted as present for purposes of determining the presence of a quorum and could prevent the approval of a proposal because they do not count as affirmative votes. Broker non-votes are not expected to result from a vote on Proposal No. 2.

If any other matters are properly presented at the Annual Meeting for consideration, including, among other things, consideration of a motion to adjourn the meeting to another time or place, the individuals named as proxies and acting there under will have discretion to vote on those matters according to their best judgment to the same extent as the person delivering the proxy would be entitled to vote. If the Annual Meeting is postponed or adjourned, a stockholder's proxy may remain valid and may be voted at the postponed or adjourned meeting. A stockholder will still be able to revoke the stockholder's proxy until it is voted. As of the date of this Proxy Statement, the Board of Directors does not know of any matters other than those described in this Proxy Statement that will be presented at the Annual Meeting.

Proxy Solicitation Costs

We will pay for the cost of preparing, assembling, printing and mailing these proxy materials to our stockholders, as well as the cost of soliciting proxies relating to the Annual Meeting. We may request banks and brokers to solicit their customers who beneficially own our common stock listed of record in names of nominees. We will reimburse these banks and brokers for their reasonable out-of-pocket expenses regarding these solicitations. Our officers, directors and employees may supplement the original solicitation by mail of proxies by telephone, facsimile, e-mail and personal solicitation. We will pay no additional compensation to our officers, directors and employees for these activities.

Voting of Proxies

If your shares are registered in your own name, you may vote by signing and mailing a completed proxy card or by voting via the Internet or by telephone. Instructions for voting via the Internet or by telephone are set forth on the enclosed proxy card. To vote by mailing a proxy card, sign and return the enclosed proxy card in the enclosed prepaid and addressed envelope, and your shares will be voted at the meeting in the manner you direct. In the event that you return a signed proxy card on which no directions are specified, your shares will be voted FOR each of the Board nominees (Proposal No. 1); FOR ratification of the appointment of Mayer Hoffman McCann P.C. as our independent registered public accounting firm for the year ending July 31, 2012 (Proposal No. 2); FOR approval of the Company's 2011 Stock Incentive Plan (Proposal No. 3); and FOR approval to amend the Company's Bylaws (Proposal No. 4), and in the discretion of the proxy holders as to any other matters that may properly come before the meeting. You may revoke or change a previously delivered proxy at any time before the meeting by delivering another proxy with a later date or by sending written notice of revocation of your proxy to our Secretary at our principal executive offices for receipt before the beginning of the meeting. You may also revoke your proxy by attending the meeting and voting in person. Attendance at the meeting will not in and of itself revoke a valid proxy that was previously delivered; you must also vote in person at the meeting to do so.

If your shares are registered in the name of a bank or brokerage firm, you will receive instructions from the holder of record that must be followed in order for the record holder to vote the shares in accordance with your instructions. Many banks and brokerage firms have a process for their beneficial holders to provide instructions over the phone or via the Internet. If Internet or telephone voting is unavailable from your bank or brokerage firm, please complete and return the enclosed voting instruction card in the addressed, postage paid envelope provided.

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Delivery of Proxy Materials to Households

"Householding" is a program, approved by the Securities and Exchange Commission, or the SEC, which allows companies and intermediaries such as banks or brokers to satisfy the delivery requirements for proxy statements and annual reports by delivering only one package of stockholder proxy material to any household at which two or more stockholders reside. If you and other residents at your mailing address own shares of our common stock in street name, your broker or bank may have notified you that your household will receive only one copy of our proxy materials. Once you have received notice from your broker that they will be "householding" materials to your address, "householding" will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in "householding" and would prefer to receive a separate proxy statement, or if you are receiving multiple copies of the proxy statement and wish to receive only one, please notify your broker if your shares are held in a brokerage account. If you hold shares of our common stock in your own name as a holder of record, "householding" will not apply to your shares.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2012 ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MARCH 2, 2012

Copies of this proxy statement and our 2011 Annual Report are also available online at: www.proxyvote.com.

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PROPOSAL NO. 1

ELECTION OF DIRECTORS

Board of Directors Structure. Our Board of Directors currently consists of four members, three of whom have been determined to be independent under the rules and listing requirements of the NYSE Amex LLC Company Guide. Please see the section titled "Director Independence" below for more information. Currently, Dr. Avtar Dhillon, Dr. Anthony Maida, Dr. James DeMesa, and Punit Dhillon serve as our directors.

No arrangement or understanding exists between any nominee and any other person or persons pursuant to which any nominee was or is to be selected as a director or director nominee of the Company. None of the nominees has any family relationship with any other nominee or with any of our executive officers, except that Punit Dhillon, our Chief Executive Officer and director, is the nephew of Dr. Avtar Dhillon, our Chairman of the Board of Directors.

Unless the proxy indicates otherwise, the persons named as proxies in the accompanying proxy have advised us that they intend to vote the shares covered by the proxies for the election of the nominees named above at the Annual Meeting. If one or more of the nominees are unable or not willing to serve, the persons named as proxies may vote for the election of the substitute nominees that our Board of Directors may propose. The accompanying proxy contains a discretionary grant of authority with respect to this matter. The persons named as proxies may not vote for a greater number of persons than the number of nominees named above.

Nominees for Election at this Annual Meeting. The Nomination and Corporate Governance Committee of our Board of Directors has recommended, and our Board of Directors has nominated, Dr. Avtar Dhillon, Dr. Anthony Maida, Dr. James DeMesa, and Punit Dhillon for election as our directors at the Annual Meeting. All of these individuals are currently members of our Board of Directors. Each nominee has consented to being named in this proxy statement as a nominee and has agreed to serve as a director if elected.

Director Nominees

Name	Age	Board Committees	Positions	Board Member Since
Dr. Avtar Dhillon	50	Compensation, Finance (Chair), and Nominating and Clinical & Regulatory	Chairman of the Board	March 2011
Dr. Anthony Maida	59	Audit, Clinical & Regulatory (Chair), and Nominating	Director	June 2011
Dr. James DeMesa	53	Nominating (Chair), and Audit and Compensation	Director	February 2011
Punit Dhillon	31		President, Chief Executive Officer and Director	March 2011

Dr. Avtar Dhillon has served as President and Chief Executive Officer of Inovio Pharmaceuticals, Inc. (formerly Inovio Biomedical Corporation) (NYSE Amex: INO) from October 2001 to June 2009, as President and Chairman of Inovio from June 2009 until October 2009, as Executive Chairman until August 2011, and as Chairman from September 2011. During his tenure at Inovio, Dr. Dhillon led the successfully turnaround of the company through a restructuring, acquisition of technology from several European and North American companies, and a merger with VGX Pharmaceuticals to develop a vertically integrated DNA vaccine development company with one of the strongest development pipelines in the industry. Dr. Dhillon led nine successful financings, raising over $136 million for Inovio and concluded several licensing deals valued at over $200 million that included global giants, Merck and Wyeth (now Pfizer). Prior to joining Inovio, Dr. Dhillon was vice president of MDS Capital Corp. (now Lumira Capital Corp.), one of North America's leading healthcare venture capital organizations. In July 1989, Dr. Dhillon started a medical clinic and subsequently practiced family medicine for over 12 years. Dr. Dhillon has been instrumental in successfully turning around struggling companies and influential as an active member in the biotech community. From March 1997 to July 1998, Dr. Dhillon was a consultant to CardiomePharma Corp. ("Cardiome"), a biotechnology company listed on the Toronto Stock Exchange and NASDAQ. While at Cardiome, Dr. Dhillon led a turnaround based on three pivotal financings, establishing a clinical development strategy, and procuring a new management team. In his role as a founder and board member of companies, Dr. Dhillon has been involved in several early stage healthcare focused companies listed on the Toronto Stock Exchange and TSX Venture Exchange, which have successfully matured through advances in their development pipeline and subsequent M&A transactions. Most recently, he was a founding board member (May 2003) of Protox Therapeutics, Inc., a publicly traded specialty pharmaceutical company. Dr. Dhillon maintained his board position until the execution of a financing of up to $35 million with Warburg Pincus in November 2010. Dr. Dhillon currently sits on the Board of Directors of BC Advantage Funds, the largest Venture Capital Corporation in British Columbia. Dr. Dhillon plays a key role on our Board of Directors because of his extensive experience with pharmaceutical and biotech companies, including based on his tenure as President and CEO of Inovio where he was responsible for developing and executing on the clinical programs that provide the extensive clinical database supporting the Company's current clinical development plan and partnering efforts for treating solid tumors.

Dr. Anthony Maida has served as a director on the Board of Directors of Spectrum Pharmaceuticals, Inc. since December 2003 and currently serves as the Chair of its Audit Committee and a member of its Compensation Committee, Placement Committee, Nomination and Corporate Governance Committee and Product Acquisition Committee. He is currently Chief Operating Officer at Northwest Biotherapeutics, Inc., a company focused on the development of therapeutic DC cell based vaccines to treat patients with cancer. Dr. Maida has been the acting Chairman of Dendri Therapeutics, Inc., a startup company focused on the clinical development of therapeutic vaccines for patients with cancer, since 2003. He has served as Chairman, Founder and Director of BioConsul Drug Development Corporation and as Principal of Anthony Maida Consulting International since 1999, providing consulting services to large and small biopharmaceutical firms in the clinical development of oncology products and product acquisitions and to venture capital firms evaluating life science investment opportunities. Recently Dr. Maida was Vice President of Clinical Research and General Manager, Oncology, world-wide for PharmaNet, Inc. He served as the President and Chief Executive Officer of Replicon NeuroTherapeutics, Inc., a biopharmaceutical company focused on the therapy of patients with tumors (both primary and metastatic) of the central nervous system, where he successfully raised financing from both venture capital and strategic investors and was responsible for all financial and operational aspects of the company, from June 2001 to July 2003. From 1999 to 2001, he held positions as Interim Chief Executive Officer for Trellis Bioscience, Inc., a privately held biotechnology company that addresses high clinical stage failure rates in pharmaceutical development, and President of CancerVax Corporation, a biotechnology company dedicated to the treatment of cancer. From 1992 until 1999, Dr. Maida served as President and CEO of Jenner Biotherapies, Inc., a biopharmaceutical company. From 1980 to 1992, he held senior management positions with various companies including Vice President Finance and Chief Financial Officer of Data Plan, Inc., a wholly owned subsidiary of Lockheed Corporation. Dr. Maida serves or has served as a consultant and technical analyst for several investment firms, including CMX Capital, LLC, Sagamore Bioventures, Roaring Fork Capital, North Sound Capital, The Bonnie J. Addario Lung Cancer Foundation and Pediaric BioScience, Inc. Additionally, he has been retained by Abraxis BioScience, Inc., Northwest Biotherapeutics, Inc., Takeda Chemical Industries, Ltd. (Osaka, Japan), and Toucan Capital to conduct corporate and technical due

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diligence on investment opportunities. Dr. Maida formerly served as a member of the board of directors of Sirion Therapeutics, Inc., a privately held ophthalmic-focused company, and GlycoMetrix, Inc., a startup company focused on the development of tests to identify carbohydrates that can indicate cancer. He is a speaker at industry conferences and is a member of the American Society of Clinical Oncology, the American Association for Cancer Research, the Society of Neuro-Oncology and the International Society for Biological Therapy of Cancer. Dr. Maida received a B.A. in History from Santa Clara University in 1975, a B.A. in Biology from San Jose State University in 1977, an M.B.A. from Santa Clara University in 1978, an M.A. in Toxicology from San Jose State University in 1986 and a Ph.D. in Immunology from the University of California in 2010. Dr. Maida brings to the Board extensive experience in our industry and significant expertise in clinical development and clinical trials. We believe that his financial and operational experience in our industry provide important resources to our Board.

Dr. James M. DeMesa has been a practicing physician and has served as a senior executive with several international pharmaceutical and biotech companies in the areas of corporate management, regulatory affairs, and pre-clinical and clinical pharmaceutical and medical device product development. Most recently, in August 2008, Dr. DeMesa retired from his role as President, Chief Executive Officer and a director of Migenix Inc. ("Migenix"), a public biotechnology company focused on infectious and neurodegenerative diseases. From 1997 to 2001, he was President, Chief Executive Officer and a director of GenSci Regeneration Sciences Inc., a public biotech company involved in the field known as orthobiologics, which is the use of biotechnology to treat musculoskeletal disease and injury. From 1992 to 1997, he was Vice President, Medical and Regulatory Affairs at Biodynamics International, Inc., and from 1989 to 1992 was Vice President, Medical and Regulatory Affairs of Bentley Pharmaceuticals. Dr. DeMesa is a co-founder of CommGeniX, a medical communications company, and MedXcel, a medical education company. Dr. DeMesa is a member of the Board of Directors of Stem Cell Therapeutics, a public biotechnology company based in Calgary, and Induce Biologics, a private Toronto-based biotechnology company. Dr. DeMesa attended the University of South Florida where he received his B.A. (Chemistry), M.D. and M.B.A. degrees and did his medical residency at the University of North Carolina. He is the author of two books and speaks regularly to companies and organizations throughout North America. Dr. DeMesa provides the Board with extensive experience with pharmaceutical and biotechnology companies, including his experience during his tenure with Migenix.

Punit Dhillon was formerly Vice President of Finance and Operations at Inovio until March 2011. In his corporate finance role, Mr. Dhillon was pivotal to the company raising over $125 million through multiple financings and several licensing deals including early stage deals with Merck and Wyeth. Mr. Dhillon was responsible for implementation of Inovio's corporate strategy, including achievement of annual budgets and milestones. He was also instrumental to the successful in-licensing of key intellectual property and a number of corporate transactions, including the acquisition and consolidation of Inovio AS, a Norwegian DNA delivery company, and the merger with VGX Pharmaceuticals ("VGX"), which solidified Inovio's position in the DNA vaccine industry. Mr. Dhillon played an effective role as head of operations for Inovio. He completed the integration of the VGX with Inovio, including achieving cost-cutting of over 30% through the synergy assessment of both companies, consolidating four operating locations into two bi-coastal offices, and managing the existing stockholders from both companies. Mr. Dhillon was a director of Auricle Biomedical, a capital pool company, from July 2007 to April 2010. Mr. Dhillon has also been a consultant and board member for several TSX Venture Exchange listed early stage life science companies, which matured through advances in their development pipelines and subsequent M&A transactions. Most recently, Mr. Dhillon was involved in the completion of a trilateral merger between three Capital Pool Companies listed on the TSX Venture Exchange, which completed a qualifying transaction in April 2010 with a company specializing in conservation and demand management accessories for the utilities industry. Prior to joining Inovio, Mr. Dhillon worked for a corporate finance law firm as a law clerk. Since September

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1999 to July 2002, he worked with MDS Capital Corp. (now Lumira Capital Corp.) as an intern analyst. Mr. Dhillon is an active member in his community and co-founder of Inbalance Network Inc. an organization focused on promoting an active lifestyle and grass roots community involvement, including scholarships to support students pursuing post-secondary education. Mr. Dhillon has a Bachelor of Arts with honors in Political Science and a minor in Business Administration from Simon Fraser University. Mr. Dhillon's in depth knowledge of our business and operations as our Chief Executive Officer, his experience in the biotechnology and pharmaceutical industry, and his experience with publicly traded companies, position him well to serve as a member of our Board of Directors.

The Board of Directors recommends a vote FOR the election of each of the named nominees as directors.

PROPOSAL NO. 2

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected Mayer Hoffman McCann P.C. as our independent registered public accounting firm with respect to our financial statements for the fiscal year ending July 31, 2012. In taking this action, the Audit Committee considered Mayer Hoffman McCann P.C.'s independence with respect to the services to be performed and other factors that the Audit Committee and the Board of Directors believe are advisable and in the best interest of the stockholders. As a matter of good corporate governance, the Audit Committee has decided to submit its selection to stockholders for ratification. In the event that this selection of independent registered public accounting firm is not ratified by a majority vote of the shares of common stock present or represented at the Annual Meeting, it will be considered as a direction to the Audit Committee to consider the selection of a different firm.

Representatives of Mayer Hoffman McCann P.C. are expected to attend the 2012 Annual Meeting and will be available to respond to appropriate questions and to make a statement if they so desire. If Mayer Hoffman McCann P.C. should decline to act or otherwise become incapable of acting, or if Mayer Hoffman McCann P.C.'s engagement is discontinued for any reason, the Audit Committee will appoint another independent registered public accounting firm to serve as our independent registered public accounting firm for our 2012 fiscal year.

Change in Certifying Public Accounting Firm

On May 27, 2011, with the approval of our Board, we dismissed Silberstein Ungar, PLLC ("Silberstein") as the independent registered public accounting firm engaged to audit our financial statements. The reports issued by Silberstein relating to its audits of the balance sheets of the Company as of July 31, 2010 and 2009, and the related statements of operations, stockholders' equity (deficit) and cash flows for each of the fiscal years then ended and for the period from inception (February 8, 2008) through July 31, 2010, contained an explanatory paragraph noting that the Company's expected losses, negative working capital, and need to raise capital raised substantial doubt about its ability to continue as a going concern. Other than as disclosed above, such reports did not contain an adverse opinion or a disclaimer of an opinion and were not qualified as to uncertainty, audit scope or accounting principles.

During our two most recent fiscal years and the subsequent interim period preceding the dismissal of Silberstein, there were no disagreements with Silberstein on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Silberstein, would have caused Silberstein to make reference to the subject matter of the disagreements in connection with its report. Pursuant to rules of the Securities and Exchange Commission applicable to smaller reporting companies, Silberstein was not required to

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provide an attestation as to the effectiveness of the Company's internal control over financial reporting for any period since the Company's inception. However, as disclosed in Item 9A of our Annual Reports on Form 10-K for the fiscal years ended July 31, 2010 and July 31, 2009, and Part I, Item 4 of our 10-Q for the quarterly period ended January 31, 2011, the Company's management determined that the Company's internal control over financial reporting was not effective as of the end of such periods due to the existence of material weaknesses related to the following:

- inadequate segregation of duties;
- lack of a functioning audit committee due to a lack of a majority of independent members and a lack of a majority of outside directors on the Company's board of directors, resulting in ineffective oversight in the establishment and monitoring of required internal controls and procedures; and
- ineffective controls over period end financial disclosures and reporting processes.

Other than as disclosed above, there were no reportable events (as that term is defined in Item 304(a)(1)(v) of Regulation S-K) during the fiscal years ended July 31, 2009 and 2010 or during the subsequent interim period through May 27, 2011. Our Board of Directors discussed the subject matter of each reportable event with Silberstein. We authorized Silberstein to respond fully and without limitation to all requests of the successor accountant concerning all matters related to the annual and interim periods audited and reviewed by Silberstein, including with respect to the subject matter of each reportable event.

We requested Silberstein furnish us with a letter addressed to the Securities and Exchange Commission stating whether it agrees with the above statements. A copy of Silberstein's letter, dated June 7, 2011, was filed as Exhibit 16.1 to our Current Report on Form 8-K/A filed on June 10, 2011.

Engagement of New Independent Registered Public Accounting Firm

The Company, with the approval of the Board of Directors, engaged Mayer Hoffman McCann P.C. ("MHM") as the Company's independent registered public accounting firm on May 27, 2011. During the fiscal years ended July 31, 2009 and 2010 and from August 1, 2010 through May 27, 2011, neither the Company nor anyone acting on its behalf consulted with MHM regarding either: (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, and neither a written report nor oral advice was provided that MHM concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement (as that term is defined in Item 304 (a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K) or a reportable event (as defined in Item 304(a)(1)(v) of Regulation S-K).

Fees Paid to Independent Registered Public Accounting Firm

In connection with the audit of our consolidated financial statements for fiscal year 2011, we entered into an agreement with Mayer Hoffman McCann P.C. which sets forth the terms by which Mayer Hoffman McCann P.C. will perform audit services for the company. The following table presents

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the aggregate fees billed for the indicated services performed by Mayer Hoffman McCann P.C. during fiscal years 2011 and for Silberstein Ungar, PLLC for fiscal years 2011 and 2010:

	2011	2010
Audit Fees Mayer Hoffman McCann P.C.	$ 79,500	$
Audit Fees Silberstein Ungar, PLLC	6,750	3,500
Audit Related Fees		
Tax Fees		
All Other Fees		
Total	$ 86,250	3,500

Silberstein Ungar, PLLC was our independent registered public accounting firm through May 27, 2011, at which time Mayer Hoffman McCann P.C. was appointed as our new independent registered public accounting firm.

Audit Fees. The fees identified under this caption were for professional services rendered by Silberstein Ungar, PLLC or Mayer Hoffman McCann P.C. for the audit of our annual financial statements. The fees identified under this caption also include fees for professional services rendered by Silberstein Ungar, PLLC or Mayer Hoffman McCann P.C. for the review of the financial statements included in our quarterly reports on Forms 10-Q. In addition, the amounts include fees for services that are normally provided by the auditor in connection with regulatory filings and engagements for the years identified. Audit fees in 2011 include an aggregate of $10,000 in fees paid in connection with our filing of a Registration Statement on Form S-1 to register for resale the shares of common stock and common stock underlying warrants issued in the June Private Placement.

Tax Fees. Tax fees consist principally of assistance related to tax compliance and reporting.

All Other Fees. These fees consist primarily of accounting consultation fees related to potential collaborative agreements. There were no such fees in 2010 and 2011.

Pre-approval Policies and Procedures

Our Audit Committee's charter requires our Audit Committee to pre-approve all audit and permissible non-audit services to be performed for the Company by our independent registered public accounting firm, giving effect to the "de minimus" exception for ratification of certain non-audit services allowed by the applicable rules of the SEC, in order to assure that the provision of such services does not impair the auditor's independence. Subsequent to establishment of our Audit Committee on June 30, 2011, the Audit Committee approved in advance all services provided by our independent registered public accounting firms. All engagements of our independent registered public accounting firm for 2010 and 2011 entered into prior to the establishment of the Audit Committee were pre-approved by the Board of Directors.

Required Vote

Approval of this proposal requires the affirmative vote of a majority of the shares represented at the meeting and entitled to vote on the proposal.

The Board of Directors recommends that you vote "FOR" approval of the ratification of Mayer Hoffman McCann P.C.

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PROPOSAL NO. 3

APPROVE OF THE ONCOSEC MEDICAL INCORPORATED 2011 STOCK INCENTIVE PLAN

Background

On August 5, 2011, the Board of Directors adopted the 2011 Stock Incentive Plan (the "2011 Plan"), subject to stockholder approval. We are asking our stockholders to approve the 2011 Plan so that we can use the 2011 Plan to achieve the Company's performance, recruiting, retention and incentive goals, as well as receive a federal income tax deduction for certain compensation paid under the 2011 Plan.

The 2011 Plan includes a variety of forms of awards, including stock options, stock appreciation rights, restricted stock, restricted stock units, and dividend equivalents to allow the Company to adapt its incentive compensation program to meet the needs of the Company in the changing business environment in which the Company operates.

We strongly believe that the approval of the 2011 Plan is essential to our continued success. The Board and management believe that equity awards motivate high levels of performance, align the interests of our personnel and stockholders by giving directors, employees and consultants the perspective of an owner with an equity stake in the Company, and provide an effective means of recognizing their contributions to the success of the Company. The Board and management believe that equity awards are a competitive necessity in our industry, and are essential to recruiting and retaining the highly qualified technical and other key personnel who help the Company meet its goals, as well as rewarding and encouraging current directors, employees and consultants. The Board and management believe that the ability to grant equity awards will be important to the future success of the Company.

A general description of the 2011 Plan is set forth below. This description is qualified in its entirety by the terms of the 2011 Plan, a copy of which is attached hereto as Appendix A.

Summary of the 2011 Stock Incentive Plan

Share Reserve. The number of shares of Company common stock initially reserved for issuance under the 2011 Plan will be five million two hundred thousand (5,200,000) shares. The number of shares available under the Amended Plan will be subject to adjustment in the event of a stock split, reverse stock split, stock dividend, combination or reclassification of shares or other similar change in our shares or our capital structure.

Any Shares covered by an award which is forfeited, canceled, expires or is settled in cash, shall be deemed not to have been issued for purposes of determining the maximum number of shares which may be issued under the Plan. Shares that have been issued under the Plan pursuant to an award shall not be returned to the Plan and shall not become available for future grant under the Plan, except where unvested shares are forfeited or repurchased by the Company at the lower of their original purchase price or their fair market value. To the extent not prohibited by the listing requirements of The NASDAQ Stock Market LLC (or other established stock exchange or national market system on which the shares are traded) or applicable law, shares tendered or withheld in payment of an award exercise or purchase price and shares withheld by the Company to pay any tax withholding obligation shall be returned to the Plan and shall become available for future issuance under the Plan, unless otherwise determined by the Administrator.

Administration. The 2011 Plan is administered, with respect to grants to officers, employees, directors, and consultants, by the Plan administrator (the "Administrator"), defined as the Board or one (1) or more committees designated by the Board. The Compensation Committee currently acts as the Administrator. With respect to grants to officers and directors, the Compensation Committee shall be

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constituted in such a manner as to satisfy applicable laws, including Rule 16b-3 promulgated under the Exchange Act and Section 162(m) of the Code.

No Repricings or Exchanges without Stockholder Approval. The Company shall obtain stockholder approval prior to (a) the reduction of the exercise price of any stock option or the base appreciation amount of any stock appreciation right awarded under the 2011 Plan or (b) the cancellation of a stock option or stock appreciation right at a time when its exercise price or base appreciation amount exceeds the fair market value of the underlying shares, in exchange for another stock option, stock appreciation right, restricted stock or other award (unless the cancellation and exchange occurs in connection with a Corporate Transaction). Notwithstanding the foregoing, cancelling a stock option or stock appreciation right in exchange for another stock option, stock appreciation right, restricted stock, or other award with an exercise price, purchase price or base appreciation amount that is equal to or greater than the exercise price or base appreciation amount of the original stock option or stock appreciation right will not be subject to stockholder approval.

Terms and Conditions of Awards. The 2011 Plan provides for the grant of stock options, restricted stock, restricted stock units, dividend equivalent rights, and stock appreciation rights (collectively referred to as "awards"). Stock options granted under the 2011 Plan may be either incentive stock options under the provisions of Section 422 of the Code, or non-qualified stock options. Incentive stock options may be granted only to employees. Awards other than incentive stock options may be granted to our employees, consultants and directors or to employees, consultants and directors of our related entities. To the extent that the aggregate fair market value of the shares subject to stock options designated as incentive stock options which become exercisable for the first time by a participant during any calendar year exceeds $100,000, such excess stock options shall be treated as non-qualified stock options. Under the 2011 Plan, awards may be granted to such employees, consultants or directors who are residing in non-U.S. jurisdictions as the Administrator may determine from time to time. Each award granted under the 2011 Plan shall be designated in an award agreement.

Awards may be granted subject to vesting schedules and restrictions on transfer and repurchase or forfeiture rights in favor of the Company as specified in the award agreements to be issued under the 2011 Plan. Under the 2011 Plan, incentive stock options may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised during the lifetime of the participant only by the participant. However, the 2011 Plan permits the designation of beneficiaries by holders of incentive stock options. Other awards shall be transferable by will and by the laws of descent and distribution and during the lifetime of the participant, to the extent and in the manner authorized by the Administrator.

The Administrator has the authority, in its discretion, to select employees, consultants and directors to whom awards may be granted from time to time, to determine whether and to what extent awards are granted, to determine the number of shares or the amount of other consideration to be covered by each award (subject to the limitations set forth below), to approve award agreements for use under the 2011 Plan, to determine the terms and conditions of any award (including the vesting schedule applicable to the award), to amend the terms of any outstanding award granted under the 2011 Plan (subject to the limitations described above), to construe and interpret the terms of the 2011 Plan and awards granted, to establish additional terms, conditions, rules or procedures to accommodate the rules or laws of applicable non-U.S. jurisdictions, and to take such other action not inconsistent with the terms of the 2011 Plan, as the Administrator deems appropriate.

The term of any award granted under the 2011 Plan will be stated in the applicable award agreement, provided that the term of an incentive stock option may not exceed ten (10) years (or five (5) years in the case of an incentive stock option granted to any participant who owns stock representing more than 10% of our combined voting power or any parent or subsidiary of us). Notwithstanding the foregoing, the term of an award shall not include any period for which the participant has elected to defer the receipt of the shares or cash issuable pursuant to the award pursuant to a deferral program the Administrator may establish in its discretion.

The 2011 Plan authorizes the Administrator to grant incentive stock options at an exercise price not less than 100% of the fair market value of our common stock on the date the stock option is granted (or 110%, in the case of an incentive stock option granted to any employee who owns stock representing more than 10% of our combined voting power or any parent or subsidiary of us). In the case of non-qualified stock options, stock appreciation rights, and awards intended to qualify as performance-based compensation, the exercise price, base appreciation amount or purchase price, if any, shall be not less than 100% of the fair market value per share on the date of grant. In the case of all other awards granted under the 2011 Plan, the exercise or purchase price shall be determined by the Administrator. The exercise or purchase price is generally payable in cash, check, shares or with respect to options, payment through a broker-dealer sale and remittance procedure or a "net exercise" procedure.

Under the 2011 Plan, the Administrator may establish one or more programs under the 2011 Plan to permit selected participants the opportunity to elect to defer receipt of consideration payable under an award. The Administrator also may establish under the 2011 Plan separate programs for the grant of particular forms of awards to one or more classes of participants.

Section 162(m) of the Code. The maximum number of shares with respect to which options and stock appreciation rights may be granted to a participant during a calendar year is five hundred thousand (500,000) shares. For awards of restricted stock and restricted stock units that are intended to be performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), the maximum number of shares subject to such awards that may be granted to a participant during a calendar year is five hundred thousand (500,000) shares. The foregoing limitations shall be adjusted proportionately by the plan administrator in the event of a stock split, reverse stock split, stock dividend, combination or reclassification of shares or other similar change in our shares or our capital structure, and its determination shall be final, binding and conclusive.

In order for restricted stock and restricted stock units to qualify as performance-based compensation, the Administrator must establish a performance goal with respect to such award in writing not later than ninety (90) days after the commencement of the services to which it relates (or, if earlier, the date after which twenty-five percent (25%) of the period of service to which the performance goal relates has elapsed) and while the outcome is substantially uncertain. In addition, the performance goal must be stated in terms of an objective formula or standard.

Under Code Section 162(m), a "covered employee" is the Company's chief executive officer and the three (3) other most highly compensated officers of the Company other than the chief financial officer.

The 2011 Plan includes the following performance criteria that may be considered by the Administrator when granting performance-based awards: (i) net earnings or net income (before or after taxes), (ii) earnings per share or earnings per share growth, total units or unit growth, (iii) net sales, sales growth, total revenue or revenue growth, (iv) operating income, net operating profit or pre-tax profit, (v) return measures (including, but not limited to, return on assets, capital, invested capital, equity, sales or revenue, (vi) cash flow (including, but not limited to, operating cash flow, free cash flow, cash flow return on equity, and cash flow return on investment), (vii) earnings before or after taxes, interest, depreciation, and/or amortization, (viii) gross or operating margins, (ix) productivity ratios, (x) share price or relative share price (including, but not limited to, growth measures and total stockholder return), (xi) expense targets, (xii) margins, (xiii) operating efficiency, (xiv) market share or change in market share, (xv) customer retention or satisfaction, (xvi) working capital targets, (xvii) completion of strategic financing goals, acquisitions or alliances and clinical progress, (xviii) company project milestones and (xix) economic value added (net operating profit after tax minus

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the sum of capital multiplied by the cost of capital). The performance criteria may be applicable to the Company, any parent or subsidiary of the Company, and/or any individual business units of the Company or any parent or subsidiary of the Company.

Certain Adjustments. Subject to any required action by the stockholders of the Company, the number of shares covered by outstanding awards, the number of shares that have been authorized for issuance under the 2011 Plan, the exercise or purchase price of each outstanding award, the maximum number of shares or amount that may be granted subject to awards to any participant, and the like, shall be proportionally adjusted by the Administrator in the event of (i) any increase or decrease in the number of issued shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification or similar event affecting the shares, (ii) any other increase or decrease in the number of issued shares effected without receipt of consideration by the Company or (iii) any other transaction with respect to our shares including a corporate merger, consolidation, acquisition of property or stock, separation (including a spin-off or other distribution of stock or property), reorganization, liquidation (whether partial or complete), distribution of cash or other assets to stockholders other than a normal cash dividend, or any similar transaction; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Administrator and its determination shall be final, binding and conclusive.

Corporate Transaction and Change in Control. The Administrator shall have the authority, exercisable either in advance of any actual or anticipated Corporate Transaction or Change in Control or at the time of an actual Corporate Transaction or Change in Control and exercisable at the time of the grant of an award under the 2011 Plan or any time while an award remains outstanding, to provide for the full or partial automatic vesting and exercisability of one or more outstanding unvested awards under the 2011 Plan and the full or partial release from restrictions on transfer and repurchase or forfeiture rights of such awards in connection with a Corporate Transaction or Change in Control, on such terms and conditions as the Administrator may specify. The Administrator also shall have the authority to condition any such award vesting and exercisability or release from such limitations upon the subsequent termination of the Continuous Service of the participant within a specified period following the effective date of the Corporate Transaction or Change in Control. The Administrator may provide that any awards so vested or released from such limitations in connection with a Change in Control shall remain fully exercisable until the expiration or earlier termination of the award. Upon the consummation of a Corporate Transaction, all outstanding awards shall terminate unless assumed by the successor corporation or its parent.

Amendment, Suspension or Termination of the 2011 Plan. The Board may at any time amend, suspend or terminate the 2011 Plan. The 2011 Plan will terminate on August 5, 2021, unless earlier terminated by the Board of Directors. To the extent necessary to comply with applicable provisions of federal securities laws, state corporate and securities laws, the Code, applicable rules of any stock exchange or national market system, and the rules of any foreign jurisdiction applicable to awards granted to residents of the jurisdiction, the Company shall obtain stockholder approval of any such amendment to the 2011 Plan in such a manner and to such a degree as required.

New Plan Benefits

Generally, awards to be granted in the future under the 2011 Plan are at the discretion of the Administrator. As such, with the exception of grants that were made, subject to obtaining stockholder approval of the 2011 Plan, to certain employees, it is not possible to determine the benefits or the amounts to be received under the 2011 Plan by the Company's officers, employees, consultants or non-employee directors.

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The following table sets forth the number of contingent awards that were granted to certain employees. No contingent awards have been granted to our executive officers. Other future awards that may be granted in the discretion of the Administrator are not determinable.

New Plan Benefits Table

OncoSec Medical Incorporated 2011 Stock Incentive Plan

Name of Individual or Identity of Group and Position	Securities Underlying Stock Options Granted (#)	Weighted Average Exercise Price Per Share ($)	Number of Shares of Restricted Stock	Dollar Value ($)*
Punit Dhillon President & Chief Executive Officer				
Michael B. Cross, Ph.D. Chief Business Officer				
Veronica Vallejo Vice President, Finance & Controller				
All current executive officers, as a group (3 persons)				
All non-employee directors, as a group (3 directors)	100,000	$ 0.40		$ 41,000
All other employees (including all current officers who are not executive officers) as a group	815,000	$ 0.35		$ 334,150

* based upon the closing price of our stock on January 25, 2012.

Federal Income Tax Consequences

The following is general summary as of this date of the federal income tax consequences to us and to U.S. participants for awards granted under the plan. The federal tax laws may change and the federal, state and local tax consequences for any participant will depend upon his or her individual circumstances. Tax consequences for any particular individual may be different. This summary does not purport to be complete, and does not discuss state, local or non-U.S. tax consequences.

Non-qualified Stock Options. The grant of a non-qualified stock option under the 2011 Plan will not result in any federal income tax consequences to the participant or to the Company. Upon exercise of a non-qualified stock option, the participant is subject to income taxes at the rate applicable to ordinary compensation income on the difference between the option exercise price and the fair market value of the shares at the time of exercise. This income is subject to withholding for federal income and employment tax purposes. The Company is entitled to an income tax deduction in the amount of the income recognized by the participant, subject to possible limitations imposed by Section 162(m) of the Code and so long as the Company withholds the appropriate taxes with respect to such income (if required) and the participant's total compensation is deemed reasonable in amount. Any gain or loss on the participant's subsequent disposition of the shares of common stock will receive long or short-term capital gain or loss treatment, depending on whether the shares are held for more than one year following exercise. The Company does not receive a tax deduction for any such gain.

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A non-qualified stock option can be considered non-qualified deferred compensation and subject to Section 409A of the Code. A non-qualified stock option that does not meet the requirements of Code Section 409A can result in the acceleration of income recognition, an additional 20% tax obligation, plus penalties and interest.

Incentive Stock Options. The grant of an incentive stock option under the 2011 Plan will not result in any federal income tax consequences to the participant or to the Company. A participant recognizes no federal taxable income upon exercising an incentive stock option (subject to the alternative minimum tax rules discussed below), and the Company receives no deduction at the time of exercise. In the event of a disposition of stock acquired upon exercise of an incentive stock option, the tax consequences depend upon how long the participant has held the shares of common stock. If the participant does not dispose of the shares within two years after the incentive stock option was granted, nor within one year after the incentive stock option was exercised, the participant will recognize a long-term capital gain (or loss) equal to the difference between the sale price of the shares and the exercise price. The Company is not entitled to any deduction under these circumstances.

If the participant fails to satisfy either of the foregoing holding periods (referred to as a "disqualifying disposition"), he or she must recognize ordinary income in the year of the disposition. The amount of ordinary income generally is the lesser of (i) the difference between the amount realized on the disposition and the exercise price or (ii) the difference between the fair market value of the stock at the time of exercise and the exercise price. Any gain in excess of the amount taxed as ordinary income will be treated as a long or short-term capital gain, depending on whether the stock was held for more than one year. The Company, in the year of the disqualifying disposition, is entitled to a deduction equal to the amount of ordinary income recognized by the participant, subject to possible limitations imposed by Section 162(m) of the Code and so long as the participant's total compensation is deemed reasonable in amount.

The "spread" under an incentive stock option i.e., the difference between the fair market value of the shares at exercise and the exercise price is classified as an item of adjustment in the year of exercise for purposes of the alternative minimum tax. If a participant's alternative minimum tax liability exceeds such participant's regular income tax liability, the participant will owe the larger amount of taxes. In order to avoid the application of alternative minimum tax with respect to incentive stock options, the participant must sell the shares within the calendar year in which the incentive stock options are exercised. However, such a sale of shares within the year of exercise will constitute a disqualifying disposition, as described above.

Stock Appreciation Rights. Recipients of stock appreciation rights ("SARs") generally should not recognize income until the SAR is exercised (assuming there is no ceiling on the value of the right). Upon exercise, the recipient will normally recognize taxable ordinary income for federal income tax purposes equal to the amount of cash and fair market value of the shares, if any, received upon such exercise. Recipients who are employees will be subject to withholding for federal income and employment tax purposes with respect to income recognized upon exercise of a SAR. Recipients will recognize gain upon the disposition of any shares received on exercise of a SAR equal to the excess of (i) the amount realized on such disposition over (ii) the ordinary income recognized with respect to such shares under the principles set forth above. That gain will be taxable as long or short-term capital gain depending on whether the shares were held for more than one year. We will be entitled to a tax deduction to the extent and in the year that ordinary income is recognized by the recipient, subject to possible limitations imposed by Section 162(m) of the Code and so long as we withhold the appropriate taxes with respect to such income (if required) and the recipient's total compensation is deemed reasonable in amount.

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A SAR also can be considered non-qualified deferred compensation and subject to Section 409A of the Code. A SAR that does not meet the requirements of Code Section 409A can result in the acceleration of income recognition, an additional 20% tax obligation, plus penalties and interest.

Restricted Stock. A restricted stock award is subject to a "substantial risk of forfeiture" within the meaning of Section 83 of the Code to the extent the award will be forfeited in the event that the participant ceases to provide services to the Company. As a result of this substantial risk of forfeiture, the recipient will not recognize ordinary income at the time of the award, unless the participant is retirement eligible. Instead, the recipient will recognize ordinary income on the date when the stock is no longer subject to a substantial risk of forfeiture, or when the stock becomes transferable, if earlier. The recipient's ordinary income is measured as the difference between the amount paid for the stock, if any, and the fair market value of the stock on the earlier of those two dates.

The recipient may accelerate his or her recognition of ordinary income, if any, and begin his or her capital gains holding period by timely filing (*i.e.*, within thirty (30) days of the award) an election pursuant to Section 83(b) of the Code. In such event, the ordinary income recognized, if any, is measured as the difference between the amount paid for the stock, if any, and the fair market value of the stock on the date of award, and the capital gain holding period commences on such date. The ordinary income recognized by a recipient that is an employee or former employee will be subject to tax withholding by the Company.

Restricted Stock Units. With respect to awards of restricted stock units, no taxable income is reportable when the restricted stock units are granted to a participant or upon vesting of the restricted stock units. Upon settlement, the recipient will recognize ordinary income in an amount equal to the value of the payment received pursuant to the restricted stock units. The ordinary income recognized by a recipient that is an employee or former employee will be subject to tax withholding by the Company.

Restricted stock units also can be considered non-qualified deferred compensation and subject to Section 409A of the Code. A grant of restricted stock units that does not meet the requirements of Code Section 409A will result in an additional 20% tax obligation, plus penalties and interest to such recipient.

Dividends and Dividend Equivalents. Recipients of stock-based awards that earn dividends or dividend equivalents will recognize taxable ordinary income on any dividend payments received with respect to unvested and/or unexercised shares subject to such awards, which income is subject to withholding for federal income and employment tax purposes. We are entitled to an income tax deduction in the amount of the income recognized by a participant, subject to possible limitations imposed by Section 162(m) of the Code and so long as we withhold the appropriate taxes with respect to such income (if required) and the individual's total compensation is deemed reasonable in amount.

Tax Effect for the Company. Unless limited by Section 162(m) of the Code, the Company generally will be entitled to a tax deduction in connection with an award under the 2011 Plan in an amount equal to the ordinary income realized by a recipient at the time the recipient recognizes such income (for example, when restricted stock is no longer subject to the risk of forfeiture).

The Plan is not qualified under the provisions of section 401(a) of the Code and is not subject to any provisions of the Employee Retirement Income Security Act of 1974.

Required Vote

Approval of this proposal requires the affirmative vote of a majority of the shares represented at the meeting and entitled to vote on the proposal.

The Board of Directors recommends that you vote "FOR" approval of the 2011 Plan.

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PROPOSAL NO. 4

AMENDMENT AND RESTATEMENT OF BYLAWS

On January 26, 2012, our Board approved, subject to receiving the approval of the holders of a majority of our outstanding common stock, the amendment and restatement of our Bylaws (the "Amended and Restated Bylaws"). Our Board believes the Amended and Restated Bylaws are in the best interests of the Company's stockholders as they provide the Company with the flexibility necessary to carry out its business plan. The Amended and Restated Bylaws will also be more consistent with Nevada law as it relates to actions which are permissible by the Board and which do not customarily require stockholder approval. The Board believes that the Amended and Restated Bylaws will make the administration of the future operations of the Company more efficient and provide more flexibility for the management of the Company within the limits of applicable law, including, allowing the Board to set the number of directors or amend the bylaws, without the time or expense required to call for a meeting of stockholders. In addition, the Amended and Restated Bylaws address and clarify matters of significance to stockholders of publicly traded companies, such as procedures for stockholder proposals and director nominations.

Comparison of Old Bylaws and Amended and Restated Bylaws

The following discussion briefly summarizes a number of the significant differences between the current Bylaws (the "Old Bylaws") and the Amended and Restated Bylaws. The full text of our proposed Amended and Restated Bylaws are included in this proxy statement as Appendix B.

Special Meetings of Stockholders.

The Old Bylaws provide that special meetings of the stockholders may be called by the Board of Directors, by the holders of not less than one-tenth of all shares of the Company entitled to vote at the meeting, or by the President of the Company. The Amended and Restated Bylaws provide that special meetings may be called for any purpose or purposes, unless otherwise prescribed by the Nevada Revised Statutes ("NRS") or by the Articles of Incorporation of the Company, as amended (the "Articles of Incorporation"), by the Chairman of the Board, the President or the Board of Directors at any time.

Action by Stockholders in Lieu of a Meeting

The Old Bylaws provide that the any action that may be taken by stockholders at any stockholder meeting may be taken without a meeting, without prior notice, and without a vote, by the written consent of all of the outstanding shares of capital stock of the Company. As permitted by the NRS, the Amended and Restated Bylaws prohibit actions by written consent of the stockholders.

Stockholder Proposals and Director Nominations

The Old Bylaws do not contain any references to the procedures to be followed if our stockholders wished to put forth a stockholder proposal or propose to the Board a nominee for director. The Amended and Restated Bylaws provide guidelines for both stockholder proposals and director nominations.

Number of Directors

The Old Bylaws provide that the number of directors on the Board is established by resolution of the stockholders. A resolution of our stockholders provided that the size of the Board could be set at between one and eight directors, the exact number to be fixed by the Board. This Amended and

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Restated Bylaws sets the size of the Board at between three and 12 directors, the exact number to be fixed by the Board.

Removal of Directors and Filling of Vacancies

The Old Bylaws provide that directors may be removed with or without cause by the vote of a majority of the shares entitled to vote at an election of directors. The Amended and Restated Bylaws provide that any director or the entire Board of Directors may be removed at any time, but only for cause or only by the affirmative vote of the holders of sixty-six and two-thirds percent ($66^2/_3$%) or more of the outstanding shares of the capital stock of the Company entitled to vote generally in the election of directors. In addition, the Amended and Restated Bylaws provide that if any vacancy occurs in the Board of Directors either through the death, resignation, retirement, disqualification or removal from office of any director, or if any new directorship is created by an increase in the authorized number of directors, a majority of the directors then in office, though less than a quorum, or a sole remaining director, may choose a successor or fill the newly created directorship.

Uncertificated Shares

The Amended and Restated Bylaws include a provision permitting the issuance of uncertificated shares, as permitted by the NRS. This provision will allow the Company to issue its authorized stock as uncertificated shares, although stockholders remain entitled to receive a stock certificate. The Old Bylaws did not contain a provision relating to uncertificated shares.

Electronic Communications

The Amended and Restated Bylaws updates the Old Bylaws to provide for electronic communications at stockholder meetings and electronic delivery of notices of stockholder meetings and meetings of the Board, to the fullest extent of currently applicable Nevada law. This provides the Board and our stockholders with significant flexibility.

Indemnification

Both the Old Bylaws and the Amended and Restated Bylaws provide that the Company shall indemnify any director or officer or former director or officer to the fullest extent permitted by law. The Amended and Restated Bylaws also provide additional detail, including with respect to the types of claims for which such individuals may be indemnified, exceptions to the Company's indemnification requirements, expense reimbursement and insurance.

Amendment

The Old Bylaws provide that the bylaws may be amended by the vote of a majority of the stockholders of the Company, while the Amended and Restated Bylaws provide that the bylaws may be amended by the stockholders or the Board of Directors.

Certain Acquisitions by Fiduciaries.

The Amended and Restated Bylaws state that provisions of NRS 78.378 to 78.3793, inclusive (entitled "Acquisition of a Controlling Interest"), shall not apply to the Company or to any "Acquisition" of a "Controlling Interest" (as each term is defined therein) in the Company by any existing or future stockholder or stockholders. The Old Bylaws do not address this matter. These provisions of the NRS are not currently applicable to the Company case because the Company does not have more than 200 registered stockholders as of the date of this proxy statement.

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The Amended and Restated Bylaws also include other substantive changes that have not been summarized here, as well as administrative and stylistic changes. Some of these changes may be important to you. The Board encourages stockholders to review the full text of the Amended and Restated Bylaws, which is attached hereto as Appendix B. The above discussion is qualified in its entirety by the full text of the Amended and Restated Bylaws as provided in Appendix B.

Required Vote

Approval of this proposal requires the affirmative vote of a majority of the shares represented at the meeting and entitled to vote on the proposal.

The Board of Directors recommends that you vote "FOR" approval of the Amended and Restated Bylaws.

CORPORATE GOVERNANCE

Director Independence

Our Board of Directors has determined that each of our directors, other than Punit Dhillon, qualify as "independent" in accordance with the NYSE Amex LLC Company Guide. The Board has determined that Mr. Dhillon is not independent because he is our Chief Executive Officer. In making these determinations, the Board of Directors reviewed and discussed information provided by the directors and management with regard to each director's business and personal activities as they may relate to our management.

Information Regarding our Board of Directors and its Committees

Our Board of Directors met two times during fiscal year 2011. Each of our directors attended 100% of the total number of meetings of the Board of Directors and of the committees of the Board of Directors on which he served during fiscal year 2011. Our Board of Directors established the following committees on June 28, 2011: the Audit Committee, the Compensation Committee, and the Nomination and Corporate Governance Committee. There were no committee meetings held during fiscal year 2011.

Audit Committee

The Audit Committee of our Board of Directors consists of Dr. Anthony Maida and Dr. James DeMesa, with Dr. Maida serving as Chairman. Our Board of Directors has determined that each of the members of our Audit Committee is independent within the meaning of applicable Securities and Exchange Commission rules and Rule 803B of the NYSE Amex LLC Company Guide, and has determined that Dr. Maida is an audit committee financial expert, as such term is defined in the rules and regulations of the Securities and Exchange Commission, or the SEC, and is financially sophisticated within the meaning of Rule 803B of the NYSE Amex LLC Company Guide. The Audit Committee has oversight responsibilities regarding, among other things: the preparation of our financial statements and our financial reporting and disclosure processes; the administration, maintenance and review of our system of internal controls regarding accounting compliance; our practices and processes relating to internal audits of our financial statements; the appointment of our independent registered public accounting firm and the review of its qualifications and independence; the review of reports, written statements and letters from our independent registered public accounting firm; and our compliance with legal and regulatory requirements in connection with the foregoing. Our Board of Directors has adopted a written charter for our audit committee, which is available on our website, www.oncosec.com, under the Investor Relations tab.

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Compensation Committee

The Compensation Committee of our Board of Directors consists of Dr. Avtar Dhillon and Dr. James DeMesa, with Dr. Dhillon serving as Chairman. Our Board of Directors has also determined that each of the members of our Compensation Committee is independent within the meaning of applicable Securities and Exchange Commission rules and Rule 803A of the NYSE Amex LLC Company Guide. The duties of our Compensation Committee include, without limitation: reviewing, approving and administering compensation programs and arrangements to ensure that they are effective in attracting and retaining key employees and reinforcing business strategies and objectives; determining the objectives of our executive officer compensation programs and the specific objectives relating to CEO compensation, including evaluating the performance of the CEO in light of those objectives; approving the compensation of our other executive officers and our directors; administering our as-in-effect incentive-compensation and equity-based plans; and producing an annual report on executive officer compensation for inclusion in our proxy statement, when required and in accordance with applicable rules and regulations. Our Board of Directors has adopted a written charter for our compensation committee, which is available on our website, www.oncosec.com, under the Investor Relations tab.

Nomination and Corporate Governance Committee

The Nomination and Corporate Governance Committee of our Board of Directors consists of Dr. James DeMesa, Dr. Avtar Dhillon and Dr. Anthony Maida, with Dr. DeMesa serving as Chairman. Our Board of Directors has also determined that each of the members of our Nomination and Corporate Governance Committee is independent within the meaning of applicable Securities and Exchange Commission rules and Rule 803A of the NYSE Amex LLC Company Guide. The responsibilities of the Nomination and Corporate Governance Committee include, without limitation: assisting in the identification of nominees for election to our Board of Directors, consistent with approved qualifications and criteria; determining the composition of the Board of Directors and its committees; recommending to the Board of Directors the director nominees for the annual meeting of stockholders; establishing and monitoring a process of assessing the effectiveness of the Board of Directors; developing and overseeing a set of corporate governance guidelines and procedures; and overseeing the evaluation of our directors and executive officers. Our Board of Directors has adopted a written charter for our Nomination and Corporate Governance Committee, which is available on our website, www.oncosec.com, under the Investor Relations tab.

Clinical and Regulatory Affairs Committee

The Clinical and Regulatory Affairs Committee of our Board of Directors consists of Dr. Anthony Maida and Dr. Avtar Dhillon, with Dr. Maida serving as Chairman. The Clinical and Regulatory Affairs Committee does not currently have a charter. The Clinical and Regulatory Affairs Committee has responsibilities relating to reviewing and providing comments on the clinical development plan for our OMS ElectroOncology programs, including introducing the clinical team to established opinion leaders, potential doctors and investigators, regulatory contacts and other professionals in the clinical oncology field that could benefit us in executing our development plan.

Financing Committee

Dr. Avtar Dhillon is the Chairman and sole member of our Financing Committee. The Financing Committee does not currently have a charter. The Financing Committee has responsibilities relating to our efforts to obtain adequate funding to finance our development programs and operations.

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Board Leadership Structure

Under our Corporate Governance Guidelines, the Board has the flexibility to decide whether it is in the best interests of the Company for the roles of Chief Executive Officer and Chairman of the Board to be separate or combined. During fiscal 2011 through March 2011, our Board consisted of only two directors, Mr. Dela Cruz and Mr. Marby. Our Board determined that as a result of the small size of the Board and the limited operations of the Company, it was not necessary to have a Chairman of the Board. Following the acquisition of certain assets of Inovio Pharmaceuticals, Inc. in March 2011, and the resignation of Mr. Dela Cruz and Mr. Marby and the appointment of Dr. Avtar Dhillon, Punit Dhillon, James DeMesa and Dr. Anthony Maida, III to the Board, our new Board determined that it was in the best interests of the Company for the roles of Chief Executive Officer and Chairman of the Board be seperate in recognition of the differences between the two roles. In qualifying the separation of the two positions, our Chief Executive Officer, Punit Dhillon, is responsible for setting our strategic direction and our day-to-day leadership and performance, while the Chairman of the Board, Dr. Avtar Dhillon, provides guidance to the Chief Executive Officer, works with the Chief Executive Officer in setting the agenda for Board meetings and presides over meetings of the full Board. The Board has determined that having a Chairman of the Board and a separate Chief Executive Officer is in the best interests of the Company at this time, as it permits Dr. Dhillon and Mr. Dhillon to focus on different aspects of our business as the Company begins operations as an emerging biomedical device company. Dr. Avtar Dhillon has significant experience with our technology as a result of his roles at Inovio, as well as with respect to securing financing for emerging companies. Mr. Punit Dhillon in addition to his corporate finance expertise also brings extensive experience in execution of the corporate strategy, clinical development plan and operations as a result of direct familiarity from his roles at Inovio. Our Board believes it should be able to freely select the Chairman of the Board based on criteria that it deems to be in our best interests and the interests of our stockholders, and therefore one person may, in the future, serve as both our Chief Executive Officer and Chairman of the Board. The functions of our Board are carried out by the full Board and, when delegated, by the Board committees. Each director participates in our major strategic and policy decisions.

Nomination of Directors

We do not have a formal policy with respect to our consideration of nominees to our Board of Directors recommended by our stockholders. However, the Board of Directors will consider candidates recommended by stockholders on a case-by-case basis. A stockholder who desires to recommend a candidate for nomination to the Board of Directors should do so in writing to the Company at 4690 Executive Drive, Suite 250, San Diego, California 92122, Attn: Secretary.

Corporate Governance Guidelines

Our Board of Directors has adopted a set of corporate governance guidelines established to assist the Board of Directors and its committees in performing their duties and serving the best interests of the company and our stockholders. Our corporate governance guidelines are available on our website, located at http://www.oncosec.com, under the Investor Relations tab.

Code of Business Conduct and Ethics

Our Board has adopted a Code of Business Conduct and Ethics that applies to all of our directors, officers and employees. The Code of Business Conduct and Ethics is available for review on our website at www.oncosec.com, and is also available in print, without charge, to any stockholder who requests a copy by writing to us at OncoSec Medical Incorporated, 4690 Executive Drive, Suite 250, San Diego, CA 92121, Attention: Investor Relations. Each of our directors, employees and officers, including our Chief Executive Officer and Principal Financial Officer, and all of our other executive officers, are required to comply with the Code of Business Conduct and Ethics. There have not been

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any waivers of the Code of Business Conduct and Ethics relating to any of our executive officers or directors in the past year.

Risk Oversight

The Board of Directors as a whole is responsible for risk management oversight of the Company. The involvement of the full Board of Directors in setting our business strategy and objectives is integral to the Board's assessment of our risk and also a determination of what constitutes an appropriate level of risk and how best to manage any such risk. This involves receiving reports and/or presentations from applicable members of management and the committees of the board. The full Board of Directors conducts on-going risk assessment of our financial risk, legal/compliance risk and operational/strategic risk and addresses individual risk issues with management throughout the year as necessary.

While the Board of Directors has the ultimate oversight responsibility for the risk management process, the Board delegates responsibility for certain aspects of risk management to its committees. In particular, the Audit Committee is responsible for reviewing our policies with respect to risk assessment and risk management, and discussing our major risk exposures and the steps management has taken to maintain and control these exposures. In addition, the Audit Committee focuses on financial risks and related controls and processes, and discusses with management our financial statements and the reasonableness of significant judgments and the adequacy and effectiveness of the accounting and financial controls. The Compensation Committee strives to create incentives that encourage a level of risk-taking behavior consistent with our business strategy and objectives. Finally, the Nomination and Corporate Governance Committee is responsible for overseeing our corporate governance and developing and reviewing our Code of Business Conduct and Ethics. Additionally, the full Board regularly receives reports from our Chief Executive Officer, the executive officer principally responsible for aiding the Board in identifying, evaluating and implementing risk management controls and methodologies to address identified risks.

Board of Directors' Attendance at Annual Meeting of Stockholders

Our Corporate Governance Guidelines require that directors attend our annual meeting of stockholders, absent a valid reason. This is our first annual meeting.

Compensation of Directors

Our directors received no fees for their service as directors during the fiscal year ended July 31, 2010. All directors received reimbursement for reasonable out-of-pocket expenses in attending Board of Directors meetings and for promoting our business.

On June 30, 2011, the Board of Directors adopted a new director compensation policy for non-employee directors, retroactive to the date of each non-employee director's appointment. According to such policy, the Chairman of our Board of Directors receives an annual fee of $30,000 and all other independent directors receive an annual fee of $15,000 for membership on the Board of Directors. In addition, non-employee directors will receive the following compensation for service on the committees of the Board of Directors beginning August 1, 2011:

- The Chairman of the Audit Committee will receive $12,000 per year and each member of the Audit Committee will receive $6,000 per year;

- The Chairman of the Compensation Committee will receive $8,000 per year and each member of our Compensation Committee will receive $4,000 per year;

- The Chairman of our Nomination and Corporate Governance Committee will receive $6,000 per year and each member of the committee will receive $3,000 per year; and

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In recognition of the significant contributions expected of the members of our Clinical and Regulatory Affairs Committee and our Financing Committee, each member of the Clinical and Regulatory Affairs Committee will receive $20,000 per year and each member of our Financing Committee will receive $40,000 per year.

Additionally, members of all of our committees receive a fee of $1,500 for each committee meeting attended in person and $750 for each committee meeting attended telephonically.

Our directors received fees for their services provide as members of the Board of Directors.

Director Compensation Table

Name	Fees Earned or Paid In Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All other Compensation ($)	Total ($)
Dr. Avtar Dhillon(1)	$ 12,349						$ 12,349
Dr. Anthony Maida(2)	$ 2,014						$ 2,014
Dr. James DeMesa(3)	$ 9,565						$ 9,565
Punit Dhillon(4)							

(1) Dr. Dhillon was appointed as Chairman of our Board of Directors on March 10, 2011

(2) Dr. Maida was appointed to our Board of Directors on June 21, 2011

(3) Dr. DeMesa was appointed to our Board of Directors on February 3, 2011

(4) Mr. Dhillon was appointed our President & CEO on March 10, 2011, and did not receive any board fees. Mr. Dhillon's salary and employment agreement are discussed in the Executive Summary Compensation Table and Employment Agreements

Communications with the Board of Directors

Any stockholder who desires to contact our Board of Directors or any member of our Board of Directors may do so by writing to: Board of Directors, c/o Secretary, OncoSec Medical Incorporated, 4690 Executive Drive, Suite 250, San Diego, California 92121. Copies of any such written communications received by the Secretary will be provided to our full Board of Directors or the appropriate member depending on the facts and circumstances described in the communication unless they are considered, in the reasonable judgment of the Secretary, to be improper for submission to the intended recipient(s).

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of our common stock by (i) each person who, to our knowledge, owns more than 5% of our common stock, (ii) each of our directors and executive officers, and (iii) all of our executive officers and directors as a group. Unless otherwise indicated in the footnotes to the following table, the address of each person named in the table is: c/o OncoSec Medical Incorporated, 4690 Executive Drive Suite 250, San Diego, CA 92121. Shares of our common stock subject to options, warrants, or other rights currently exercisable or exercisable within 60 days of January 25, 2012, are deemed to be beneficially owned and outstanding for computing the share ownership and percentage of the person holding such options,

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warrants or other rights, but are not deemed outstanding for computing the percentage of any other person.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage Beneficially Owned(1)
Directors and Officers:		
Avtar Dhillon	9,910,480	17.4%
Punit Dhillon(2)	4,394,000	7.7%
Anthony Maida(3)	50,000	*
James DeMesa	250,000	*
Michael Cross	1,214,000	2.1%
Veronica Vallejo	200,000	*
Directors and Executive Officers as a Group (6 persons)	16,018,480	28.1%

* Less than 1%

(1) Based on 56,856,000 shares of our common stock issued and outstanding as of January 25, 2012. Except as otherwise indicated, we believe that the beneficial owners of the common stock listed above, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities.

(2) Includes 120,000 shares held by Inbalance Network Inc., and 25,000 shares held by Four Front Investments. Mr. Dhillon is a stockholder and managing partner of Inbalance Network, Inc. and Four Front Investments. Also included are 607,000 shares held by the spouse of Mr. Dhillon.

(3) Includes 50,000 shares of common stock issuable upon exercise of options exercisable within 60 days of January 25, 2012.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

Set forth below is certain information regarding our executive officers:

Name	Position	Age	Officer Since
Punit Dhillon	President, Chief Executive Officer and Director	31	March 10, 2011
Michael Cross, Ph.D.	Chief Business Officer	47	March 10, 2011
Veronica Vallejo	Vice President, Finance, and Controller	38	March 10, 2011

For biographical information regarding Punit Dhillon, see "Proposal 1 Election of Directors."

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Michael Cross, Ph.D., Chief Business Officer. On March 10, 2011, Dr. Michael Cross was appointed Chief Business Officer. Dr. Cross has nearly two decades of life sciences venture capital and biotech industry experience. Prior to Dr. Cross' role with us, Dr. Cross was in senior roles in venture investing and portfolio management at both GrowthWorks as Vice President and Jovian Capital as Senior Vice President in Toronto. In these roles he served on the Boards of both private and public life sciences and biotech companies. Previous to Jovian, Michael had lead operational responsibilities as COO of a public oncology company, Viventia Biotech, where he helped bring an anti-cancer product into worldwide pivotal clinical trials. In addition, Dr. Cross was Managing Director of a contract manufacturing organization that he helped build and sell for its stockholders. From 1996 to 2003, Dr. Cross held a variety of increasingly senior positions at MDS Inc. and MDS Capital and helped start MDS Proteomics. Before joining MDS, Dr. Cross was with the Department of National Defence, including serving as a Post-Doctoral Fellow with the Trauma and Physiology Group of the Defence Research Agency in Toronto. Dr. Cross received his Masters in Business Administration and his Doctorate in Philosophy from the University of Toronto.

Veronica Vallejo, Vice President, Finance, and Controller. On March 10, 2011 Veronica Vallejo was appointed Secretary and Treasurer, and serves as Controller and Principal Financial Officer of OncoSec Medical Incorporated. As of June 30, 2011, Ms. Vallejo also serves as our Vice President, Finance. Ms. Vallejo joined the company in February of 2011. Prior to working for us, Ms. Vallejo worked in public accounting since 1997, most recently working as a Senior Manager with Mayer Hoffman McCann P.C., from January 2001 to December 2010. Ms. Vallejo holds a B.S. in Business Administration with an emphasis in accounting from San Diego State University. She is a certified public accountant and a member of the American Institute of Certified Public Accountants.

Family Relationships

No family relationships exist between any of our directors or executive officers of our Company, except that Mr. Punit Dhillon, director, President and Chief Executive Officer, is the nephew of Dr. Avtar Dhillon, a director and our Chairman of the Board.

EXECUTIVE COMPENSATION

The following table summarizes all compensation recorded by us in each of the fiscal years ended July 31, 2011 and July 31, 2010 for (i) our principal executive officer, (ii) our principal financial officer, (iii) our next most highly compensated executive officers other than our principal executive officer and principal financial officer serving as an executive officer at the end of fiscal year 2011 and whose total compensation exceeded $100,000 in fiscal year 2011 (one executive officer) and (iii) our former sole executive officer, Mr. Ronald Dela Cruz, whose employment with us terminated on March 10, 2011.

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Summary Compensation Table

Name	Fiscal Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All other Compensation ($)	Total ($)
Ronald C. Dela Cruz, President(1)	2011 2010								
Punit Dhillon, President & CEO(2)	2011	$ 90,000							$ 90,000
Dr. Michael Cross, CBO(3)	2011	$ 100,833						$ 3,700	$ 104,533
Veronica Vallejo, VP Finance and Controller(5)	2011	S 65,833							S 65,833

(1) Mr. Dela Cruz served as our President from our incorporation on February 8, 2008 until March 10, 2011. He received no compensation for his services as our President.

(2) Mr. Dhillon was appointed our President and Chief Executive Officer on March 10, 2011.

(3) Dr. Cross was appointed our Chief Business Officer on March 10, 2011.

(4) Amounts under the "All Other Compensation" column consist of company-paid auto and housing allowances.

(5) Ms. Vallejo was appointed our Secretary and Treasurer on March 10, 2011. Ms. Vallejo is also our Principal Financial Officer.

Outstanding Equity Awards At Fiscal Year-End

There was no outstanding equity award to the named executive officers listed in the Summary Compensation Table above as of the fiscal year ended July 31, 2011.

Option Grants and Exercises

As of July 31, 2011, there were no option grants or exercises by our named executive officer listed in the Summary Compensation Table above.

Employment Agreements

On May 18, 2011, we entered into an Employment Agreement with our current President and Chief Executive Officer, Mr. Punit Dhillon. The Employment Agreement provides for the following, among other things: (a) a base annual salary of $240,000; (b) eligibility to receive an annual bonus at the discretion of the Board of Directors; (c) eligibility to participate in the Company's stock incentive program at the discretion of the Board of Directors; (d) acceleration of vesting of any unvested stock options outstanding upon a change of control of the Company; (e) if Mr. Dhillon is terminated other than for cause, death or disability, or if he terminates his employment with the Company for good reason, Mr. Dhillon is entitled to receive (i) severance payments equal to 24 months of his base salary, (ii) a pro rata percentage of the annual bonus he had received the prior fiscal year and (iii) payment of health benefits for 24 months, conditioned on his execution of a release; and (f) if

Mr. Dhillon's employment is terminated for death or disability, he or his estate is entitled to receive a pro rata percentage of the annual bonus he had received for the prior fiscal year. The Employment Agreement has an initial term of five years.

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The term "good reason" is defined to mean termination by Mr. Dhillon following the occurrence of any of the following events without Mr. Dhillon's consent: (a) Mr. Dhillon ceases to report to the Board of Directors, provided that such change in reporting relationship results in a material reduction in his authority, duties or responsibilities; or (b) any other material reduction in his duties, authority or responsibilities relative to those in effect immediately prior to the reduction.

On May 18, 2011, we entered into an Employment Agreement with our Chief Business Officer, Dr. Michael Cross. The Employment Agreement with Dr. Cross provides for the following, among other things: (a) a base annual salary of $220,000; (b) eligibility to receive an annual bonus at the discretion of the Board of Directors; (c) eligibility to participate in the Company's stock incentive program at the discretion of the Board of Directors; (d) acceleration of vesting of any unvested stock options outstanding upon a change of control of the Company; (e) if Dr. Cross is terminated other than for cause, death or disability, or if he terminates his employment with the Company for good reason, Dr. Cross is entitled to receive (i) severance payments equal to 12 months of his base salary, (ii) a pro rata percentage of the annual bonus he had received the prior fiscal year and (iii) payment of health benefits for 12 months, conditioned on his execution of a release; and (f) if Dr. Cross's employment is terminated for death or disability, he or his estate is entitled to receive a pro rata percentage of the annual bonus he had received for the prior fiscal year. Under the Employment Agreement, Dr. Cross may perform his duties from his current location in Ontario, Canada for 12 months following the effective date of the Employment Agreement. If the Company satisfies certain financial conditions as of April 30, 2012 (as provided in the Company's Form 10-Q for the quarter ending April 30, 2012), Dr. Cross must relocate to the Company's headquarters in San Diego, California. The Company and Dr. Cross will negotiate the terms of such relocation at that time. The Employment Agreement has an initial term of five years.

The term "good reason" is defined to mean termination by Dr. Cross following the occurrence of any of the following events without Mr. Cross's consent: (a) Dr. Cross ceases to report to the Chief Executive Officer or the Board of Directors, provided that such change in reporting relationship results in a material reduction in his authority, duties or responsibilities; (b) any other material reduction in his duties, authority or responsibilities relative to those in effect immediately prior to the reduction; or (c) following Dr. Cross's relocation to San Diego, California, the relocation of Dr. Cross's place of employment more than 50 miles from the Company's current location in San Diego, California.

On May 18, 2011, we entered into an Employment Agreement with our Vice President, Finance and Controller, Ms. Veronica Vallejo. The Employment Agreement provides for the following, among other things: (a) a base annual salary of $140,000; (b) eligibility to receive an annual bonus at the discretion of the Board of Directors; (c) eligibility to participate in the Company's stock incentive program at the discretion of the Board of Directors; (d) acceleration of vesting of any unvested stock options outstanding upon a change of control of the Company; (e) if Ms. Vallejo is terminated other than for cause, death or disability, or if she terminates her employment with the Company for good reason, she is entitled to receive (i) severance payments equal to six months of her base salary, (ii) a pro rata percentage of the annual bonus she had received the prior fiscal year and (iii) payment of health benefits for six months, conditioned on her execution of a release; and (f) if Ms. Vallejo's employment is terminated for death or disability, she or her estate is entitled to receive a pro rata percentage of the annual bonus she had received for the prior fiscal year. The Employment Agreement has an initial term of five years.

The term "good reason" is defined to mean termination by Ms. Vallejo following the occurrence of any of the following events without Ms. Vallejo's consent: (a) Ms. Vallejo ceases to report directly to the President and Chief Executive Officer or the Board of Directors, provided that such change in reporting relationship results in a material reduction in her authority, duties or responsibilities; or (b) any other material reduction in her duties, authority or responsibilities relative to those in effect immediately prior to the reduction.

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On June 30, 2011, our Board of Directors approved the promotion of Ms. Vallejo to Vice President, Finance, and a commensurate increase in her base annual salary to $160,000.

Equity Compensation Plan Information

In May 2011, our Board of Directors adopted the OncoSec Medical Incorporated 2011 Stock Incentive Plan ("the 2011 Plan"), subject to stockholder approval. The 2011 Plan authorized the Board of Directors to grant incentive stock options and non-statutory stock options to employees, directors, and consultants for up to 5,200,000 shares of common stock. Under the 2011 Plan, incentive stock options and nonqualified stock options can be granted. Incentive stock options are to be granted at a price that is no less than 100% of the fair value of the stock at the date of grant. Options vest over a period according to the option agreement, and are exercisable for a maximum period of ten years after the date of grant. Options granted to stockholders who own more than 10% of the outstanding stock of OncoSec at the time of grant must be issued at an exercise price no less than 110% of the fair value of the stock on the date of grant. No options were issued under the 2011 Plan during the fiscal year ended July 31, 2011. We are submitting the 2011 Plan to a vote of our stockholders at this Annual Meeting. For further information see Proposal 3 in this Proxy Statement.

Certain Relationships and Related Transactions

Other than as described below, since February 8, 2008, there have been no transactions, or currently proposed transactions, in which we were or are to be a participant and the amount involved exceeds the lesser of $120,000 or one percent of the average of our total assets at year end for the last two completed fiscal years and in which any related person had or will have a direct or indirect material interest.

On February 11, 2011, we entered into a promissory note arrangement with Poma Management S.A. in the amount of $120,000. Our former director and chief executive officer and a former holder of over 5% of our common stock, Ronald Dela Cruz, is affiliated with Poma Management S.A. The promissory note bore interest at a rate of 10% annually. We made full payment on this promissory note on March 18, 2011.

Mr. Dela Cruz also loaned us an amount of $33,867 to fund operations, which did not include interest terms. On March 18, 2011, we made full payment on this loan.

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AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors is responsible for providing independent, objective oversight of the Company's accounting functions and internal controls. Directors Anthony Maida and James DeMesa served on our Audit Committee during fiscal year 2011. Dr. Maida joined the Audit Committee and became its Chair in June 28, 2011. Each member of the Audit Committee is an independent director. Management is responsible for internal controls and the financial reporting process. The independent registered public accountants are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States), when required. The Audit Committee's responsibility is to monitor and oversee these processes.

In fulfilling its responsibilities, the Audit Committee met with management and the independent registered public accounting firm to review and discuss our July 31, 2011 consolidated financial statements and our fiscal year 2011 interim consolidated financial statements, including the disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our most recent annual report on Form 10-K, any material changes in accounting policies used in preparing such consolidated financial statements prior to filing the annual report on Form 10-K or our quarterly reports on Form 10-Q with the SEC, and the items required to be discussed by Statement of Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1. AU section 380), with respect to annual consolidated financial statements, and Statement of Auditing Standards No. 100, as amended (AICPA, *Professional Standards*, Vol. 1. AU section 722), with respect to quarterly consolidated financial statements.

In addition, the Audit Committee received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accounting firm's communications with the Audit Committee concerning independence, and discussed with the independent registered public accounting firm such firm's independence from the Company and its management. The Audit Committee has concluded that the independent registered public accounting firm is independent from the Company and our management.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board of Directors approved, the inclusion of the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended July 31, 2011, for filing with the SEC.

THE AUDIT COMMITTEE:

Anthony Maida (Chair)
James DeMesa

STOCKHOLDER PROPOSALS FOR 2013 ANNUAL MEETING

The submission deadline for stockholder proposals to be included in our proxy materials for the 2013 annual meeting of stockholders pursuant to Rule 14a-8 under the Securities Exchange Act of 1934 is October 10, 2012 except as may otherwise be provided in Rule 14a-8. All such proposals must be in writing and should be sent to our Corporate Secretary at 4690 Executive Drive, Suite 250, San Diego, California 92121.

OTHER MATTERS

Our Board of Directors does not know of any other matters to be presented at the 2012 Annual Meeting of Stockholders but, if other matters do properly come before the meeting, it is intended that the persons named as proxies in the proxy card will vote on them in accordance with their best judgment.

ANNUAL REPORT

A copy of our 2011 annual report is being mailed to each stockholder of record together with this proxy statement. The 2011 annual report includes our audited consolidated financial statements for the fiscal year ended July 31, 2011. Our annual report on Form 10-K includes these consolidated financial statements. The annual report on Form 10-K is not part of our proxy soliciting material**. Copies of the annual report on Form 10-K, without exhibits, can be obtained without charge by contacting us at 4690 Executive Drive, Suite 250, San Diego, California 92121, (855) 662-6732 Ext. 520, or through our website, located at *http://www.oncosec.com*.**

DELIVERY OF VOTING MATERIALS

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as "householding," potentially means extra convenience for stockholders and cost savings for companies.

This year, a number of brokers with account holders who are the Company's stockholders will be "householding" our proxy materials. A single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that they will be "householding" communications to your address, "householding" will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in "householding" and would prefer to receive a separate proxy statement and annual report, please notify your broker, direct your written request to OncoSec Medical Incorporated, c/o Corporate Secretary, 4690 Executive Drive, Suite 250, San Diego, California 92121 or call Investor Relations at 855-662-6732, Ext 520. Stockholders who currently receive multiple copies of the proxy statement at their address and would like to request "householding" of their communications should contact their brokers.

By order of the Board of Directors,

/s/ PUNIT DHILLON

Punit Dhillon
President and Chief Executive Officer

San Diego, California
February 7, 2012

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Appendix A

ONCOSEC MEDICAL INCORPORATED

2011 STOCK INCENTIVE PLAN

1. *Purposes of the Plan.* The purposes of this Plan are to attract and retain the best available personnel, to provide additional incentives to Employees, Directors and Consultants and to promote the success of the Company's business.

2. *Definitions.* The following definitions shall apply as used herein and in the individual Award Agreements except as defined otherwise in an individual Award Agreement. In the event a term is separately defined in an individual Award Agreement, such definition shall supersede the definition contained in this Section 2.

(a) "*Administrator*" means the Board or any of the Committees appointed to administer the Plan.

(b) "*Affiliate*" and "*Associate*" shall have the respective meanings ascribed to such terms in Rule 12b-2 promulgated under the Exchange Act.

(c) "*Applicable Laws*" means the legal requirements relating to the Plan and the Awards under applicable provisions of federal securities laws, state corporate and securities laws, the Code, the rules of any applicable stock exchange or national market system, and the rules of any non-U.S. jurisdiction applicable to Awards granted to residents therein.

(d) "*Assumed*" means that pursuant to a Corporate Transaction either (i) the Award is expressly affirmed by the Company or (ii) the contractual obligations represented by the Award are expressly assumed (and not simply by operation of law) by the successor entity or its Parent in connection with the Corporate Transaction with appropriate adjustments to the number and type of securities of the successor entity or its Parent subject to the Award and the exercise or purchase price thereof which at least preserves the compensation element of the Award existing at the time of the Corporate Transaction as determined in accordance with the instruments evidencing the agreement to assume the Award.

(e) "*Award*" means the grant of an Option, SAR, Dividend Equivalent Right, Restricted Stock, Restricted Stock Unit or other right or benefit under the Plan.

(f) "*Award Agreement*" means the written agreement evidencing the grant of an Award executed by the Company and the Grantee, including any amendments thereto.

(g) "*Board*" means the Board of Directors of the Company.

(h) "*Change in Control*" means a change in ownership or control of the Company after the Registration Date effected through either of the following transactions:

(i) the direct or indirect acquisition by any person or related group of persons (other than an acquisition from or by the Company or by a Company-sponsored employee benefit plan or by a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's stockholders which a majority of the Continuing Directors who are not Affiliates or Associates of the offeror do not recommend such stockholders accept, or

(ii) a change in the composition of the Board over a period of twelve (12) months or less such that a majority of the Board members (rounded up to the next whole number) ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who are Continuing Directors.

(i) "*Code*" means the Internal Revenue Code of 1986, as amended.

(j) "*Committee*" means any committee composed of members of the Board appointed by the Board to administer the Plan.

(k) "*Common Stock*" means the common stock of the Company.

(l) "*Company*" means OncoSec Medical Incorporated, a Nevada corporation, or any successor entity that adopts the Plan in connection with a Corporate Transaction.

(m) "*Consultant*" means any person (other than an Employee or a Director, solely with respect to rendering services in such person's capacity as a Director) who is engaged by the Company or any Related Entity to render consulting or advisory services to the Company or such Related Entity.

(n) "*Continuing Directors*" means members of the Board who either (i) have been Board members continuously for a period of at least twelve (12) months or (ii) have been Board members for less than twelve (12) months and were elected or nominated for election as Board members by at least a majority of the Board members described in clause (i) who were still in office at the time such election or nomination was approved by the Board.

(o) "*Continuous Service*" means that the provision of services to the Company or a Related Entity in any capacity of Employee, Director or Consultant is not interrupted or terminated. In jurisdictions requiring notice in advance of an effective termination as an Employee, Director or Consultant, Continuous Service shall be deemed terminated upon the actual cessation of providing services to the Company or a Related Entity notwithstanding any required notice period that must be fulfilled before a termination as an Employee, Director or Consultant can be effective under Applicable Laws. A Grantee's Continuous Service shall be deemed to have terminated either upon an actual termination of Continuous Service or upon the entity for which the Grantee provides services ceasing to be a Related Entity. Continuous Service shall not be considered interrupted in the case of (i) any approved leave of absence, (ii) transfers among the Company, any Related Entity, or any successor, in any capacity of Employee, Director or Consultant, or (iii) any change in status as long as the individual remains in the service of the Company or a Related Entity in any capacity of Employee, Director or Consultant (except as otherwise provided in the Award Agreement). An approved leave of absence shall include sick leave, military leave, or any other authorized personal leave. For purposes of each Incentive Stock Option granted under the Plan, if such leave exceeds three (3) months, and reemployment upon expiration of such leave is not guaranteed by statute or contract, then the Incentive Stock Option shall be treated as a Non-Qualified Stock Option on the day three (3) months and one (1) day following the expiration of such three (3) month period.

(p) "*Corporate Transaction*" means any of the following transactions, provided, however, that the Administrator shall determine under parts (iv) and (v) whether multiple transactions are related, and its determination shall be final, binding and conclusive:

(i) a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the state in which the Company is incorporated;

(ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company;

(iii) the complete liquidation or dissolution of the Company;

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(iv) any reverse merger or series of related transactions culminating in a reverse merger (including, but not limited to, a tender offer followed by a reverse merger) in which the Company is the surviving entity but (A) the shares of Common Stock outstanding immediately prior to such merger are converted or exchanged by virtue of the merger into other property, whether in the form of securities, cash or otherwise, or (B) in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities are transferred to a person or persons different from those who held such securities immediately prior to such merger or the initial transaction culminating in such merger, but excluding any such transaction or series of related transactions that the Administrator determines shall not be a Corporate Transaction; or

(v) acquisition in a single or series of related transactions by any person or related group of persons (other than the Company or by a Company-sponsored employee benefit plan) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities but excluding any such transaction or series of relate31, 2006 and 2005, 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 Apria s analysis of historical performance and collectibility. The lower unbilled amount at the end of 2006 is largely due to the significant decrease in acquisition activity in 2006. The acquisitions executed in 2005 were the primary cause of the higher unbilled receivable balance at the end of that year. The time-consuming processes of converting patient files onto Apria s systems and obtaining provider numbers from governmental payors routinely delay billing of newly acquired business.

Inventories and Patient Service Equipment. Inventories consist primarily of pharmaceuticals and disposable products used in conjunction with patient service equipment. Patient service 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 Apria for redistribution after cleaning and maintenance is performed.

The branch locations serve as the primary point from which inventories and patient service equipment are delivered to patients. Certain products and services, such as infusion therapy and respiratory medications, bypass the branches and are provided directly to patients from pharmacies or other central locations. The branches are supplied with inventory and equipment from central warehouses that service specific areas of the country. Such warehouses are also responsible for repairs and scheduled maintenance of patient service equipment, which adds to the frequent movement of equipment between locations. Further, the majority of Apria s patient service equipment is located in patients homes. While utilization varies widely between equipment types, on the average, approximately 82% of equipment is on rent at any given time. Inherent in this asset flow is the fact that losses will occur. Management has successfully instituted a number of controls over the company s inventories and patient service equipment to minimize such losses. Depending on the product type, the company performs physical inventories on an annual or quarterly basis. Inventory and patient service equipment balances in the financial records are adjusted to reflect the results of these physical inventories. Inventory and patient service equipment losses for 2006, 2005 and 2004, were $3.1 million, $868,000 and $2.0 million, respectively.

Long-term Debt. Apria s senior secured credit agreement with Bank of America and a syndicate of lenders was amended effective June 23, 2006. The amendment extended the maturity date from November 23, 2009 to June 23, 2011 and lowered the applicable interest rate margins and commitment fees. The credit agreement is structured as a $500 million revolving credit facility. The credit agreement permits Apria to select one of two variable interest rates. One option is the base rate, which is expressed as the higher of (a) the Federal Funds rate plus 0.50% or (b) the Bank of America prime rate. The other option is the Eurodollar rate, which is based on the London Interbank Offered Rate. Interest on outstanding balances under the credit agreement is determined by adding a margin to the Eurodollar rate or base rate in effect at each interest calculation date. The applicable margin for the revolving credit facility is based on Apria s debt rating as determined by Standard and Poor s Ratings Services or Moody s Investor Services with respect to the credit facility. The applicable margins, as amended, range from 0.625% to 1.25% for Eurodollar loans and from zero to 0.25% for base rate loans. The credit agreement also requires payment of commitment fees ranging from 0.10% to 0.20% (also based on Apria s debt rating) on the unused portion of the revolving credit facility. The effective interest rate at December 31, 2006, after consideration of the effect of the swap agreements described below, was 6.25%. See Hedging Activities.

On December 31, 2006 outstanding borrowings on the revolving credit facility were $235.0 million outstanding letters of credit totaled $3.9 million and credit available under the revolving facility was $261.1 million. At December 31, 2006, the company was in compliance with all of the financial covenants required by the credit agreement. Borrowings under the credit facility are secured by a pledge of the common stock of all of the company s subsidiaries.

Convertible Senior Notes. In August 2003, Apria issued convertible senior notes in the aggregate principal amount of $250 million under an indenture between Apria and U.S. Bank National Association. The notes were issued in a private placement at an issue price of $1,000 per note (100% of the principal amount at maturity) and were subsequently registered with the Securities and Exchange Commission. The notes will mature on September 1, 2033, unless earlier converted, redeemed or repurchased by Apria. Apria may redeem some or all of the notes at any time after September 8, 2010 at a redemption price equal to 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest and contingent interest, if any, to the redemption date. The holders of the notes may require Apria to repurchase some or all of the notes at a repurchase price equal to 100% of the principal amount of the notes plus accrued and unpaid interest, including contingent interest, up to but excluding the applicable repurchase date, initially on September 1, 2008, and subsequently on September 1 of 2010, 2013, 2018, 2023 and 2028, or at any time prior to their maturity following a fundamental change, as defined in the indenture. Any notes that Apria is required to repurchase will be paid for in cash, pursuant to the terms of a December 2004 amendment to the indenture which eliminated the company s option to pay part of the repurchase price in shares of common stock.

The notes bear interest at the rate of $3^3/_8$% per year. Interest on the notes is payable on September 1 and March 1 of each year, beginning on March 1, 2004. Also, during certain periods commencing on September 8, 2010, Apria will pay contingent interest on the interest payment date for the applicable interest period if the average trading price of the notes during the five trading days ending on the third day immediately preceding the first day of the applicable interest period equals or exceeds 120% of the principal amount of the notes. The contingent interest payable per note will equal 0.25% per year of the average trading price of such note during the applicable five trading-day reference period. Further, the notes are convertible, at the holder s option, during certain periods into shares of Apria common stock, initially at a conversion rate of 28.6852 shares of common stock per $1,000 principal amount of notes, subject to adjustment in certain events, under certain circumstances as outlined in the indenture.

Hedging Activities. Apria is exposed to interest rate fluctuations on its underlying variable rate long-term debt. Apria s policy for managing interest rate risk is to evaluate and monitor all available relevant information, including but

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not limited to, the structure of its interest-bearing assets and liabilities, historical interest rate trends and interest rate forecasts published by major financial institutions. The tools Apria may utilize to moderate its exposure to fluctuations in the relevant interest rate indices include, but are not limited to: (1) strategic determination of repricing periods and related principal amounts, and (2) derivative financial instruments such as interest rate swap agreements, caps or collars. Apria does not use derivative financial instruments for trading or other speculative purposes.

During 2006, Apria had two interest rate swap agreements in effect to fix its LIBOR-based variable rate debt. One of the agreements, which expired in December 2006, had a notional amount of $25.0 million and a fixed rate of 3.42%. The other agreement, a forward-starting contract with a three-year term, became effective in January 2006, and has a notional amount of $25.0 million that fixes an equivalent amount of the company s variable rate debt at 4.44%.

In 2005, Apria had two interest rate swap agreements. Each agreement had a notional amount of $25.0 million, with one agreement expiring in December 2005 and the other agreement expiring in December 2006. In 2004, Apria also had two swap agreements with an aggregate notional amount of $50.0 million that expired in December 2004.

The swap agreements are being accounted for as cash flow hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. Accordingly, the difference between the interest received and interest paid is reflected as an adjustment to interest expense. For the years ended December 31, 2006, 2005 and 2004, Apria received (paid) net settlement amounts of $540,000, $11,000 and ($1,381,000), respectively. At December 31, 2006, the aggregate fair value of the swap agreements was an asset of $356,000 and is reflected in the accompanying consolidated balance sheets in other assets. Unrealized gains and losses on the fair value of the swap agreements are reflected, net of taxes, in operating income, as the transactions no longer qualify for hedge accounting treatment. Apria s exposure to credit loss under the swap agreement is limited to the interest rate spread in the event of counterparty nonperformance. Apria does not anticipate losses due to counterparty nonperformance as its counterparties to the swap agreement are nationally recognized financial institutions with strong credit ratings.

Treasury Stock. All repurchased shares of common stock are held as treasury shares.

In 2006, 7,672 shares of employee restricted stock shares, valued at $141,000, were retained by the company upon vesting to satisfy the related tax obligation.

In October 2005, Apria s Board of Directors authorized the company to repurchase up to $250.0 million worth of its outstanding common stock. On November 7, 2005, Apria purchased 7.3 million shares of its common stock for $175.0 million through an accelerated share repurchase program. Under the agreement, Apria s counterparty borrowed shares that were sold to Apria at an initial price of $23.83. The counterparty then repurchased shares over a period that commenced immediately after the sale of shares to Apria. The repurchase transaction was completed in February 2006. The agreement contained a provision that subjected Apria to a purchase price adjustment based on the volume weighted average price of the company s common stock over the period during which the counterparty purchased the shares. Such provision resulted in an additional $242,000 owed to the counterparty that Apria elected to settle in cash in February 2006. This amount was recorded as a liability at December 31, 2005, with a corresponding charge to interest expense reflecting the change in the fair value of the settlement contract. The amount remaining on the aforementioned Board authorization expires at the end of the first quarter of 2007.

In January 2004, Apria prepaid $50.0 million to repurchase 1.7 million shares of its common stock at a strike price of $28.89 through an accelerated share repurchase program. The repurchase of the shares was completed in April 2004 and the share price differential was settled in cash in June 2004, for a total cost of $53 million. During the third quarter of 2004, the company purchased an additional 1.7 million shares for $47.0 million.

Business Combinations. Apria periodically acquires complementary businesses in specific geographic markets. Because of the potential for a higher gross margin, Apria targets respiratory therapy businesses. These transactions are accounted for as purchases and the results of operations of the acquired companies are included in the accompanying statements of operations from the dates of acquisition. In accordance with SFAS No. 142, goodwill is no longer being amortized. Covenants not to compete are being amortized over the life of the respective agreements. Tradenames and customer lists are being amortized over the period of their expected benefit.

In 2006, Apria closed 3 small acquisitions for an aggregate consideration of $3.6 million. Allocation of this amount includes $2.0 million to patient service equipment, $1.3 million in customer lists and $97,000 to goodwill. The aggregate consideration for the 21 acquisitions that closed during 2005 was $103.0 million and $148.7 million for the 27

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acquisitions executed in 2004. Cash paid for acquisitions, which includes amounts deferred from prior year acquisitions, totaled $8.1 million, $105.5 million and $144.2 million in 2006, 2005 and 2004, respectively.

Off-Balance Sheet Arrangements

Apria is not a party to off-balance sheet arrangements as defined by the Securities and Exchange Commission. However, from time to time the company enters into certain types of contracts that contingently require the company to indemnify parties against third-party claims. The 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 company s balance sheets for any of the periods presented.

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Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Apria is exposed to interest rate fluctuations on its underlying variable rate long-term debt. Apria utilizes interest rate swap agreements to moderate such exposure. Apria does not use derivative financial instruments for trading or other speculative purposes.

At December 31, 2006, Apria s revolving credit facility borrowings totaled $235.0 million. The bank credit agreement governing the revolver provides interest rate options based on the following indices: Federal Funds Rate, the Bank of America prime rate or the London Interbank Offered Rate, or LIBOR and all such interest rate options are subject to the application of an interest margin as specified in the bank credit agreement. At December 31, 2006, all of Apria s outstanding revolving debt was tied to LIBOR. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources *Long Term Debt.*

During 2006, Apria had two interest rate swap agreements in effect to fix its LIBOR-based variable rate debt. One of the agreements, which expired in December 2006, had a notional amount of $25.0 million and a fixed rate of 3.42%. The other agreement, a forward-starting contract with a three-year term, became effective in January 2006, and has a notional amount of $25.0 million that fixes an equivalent amount of the company s variable rate debt at 4.44%. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources *Long Term Debt Hedging Activities.*

Based on the revolving debt outstanding and the swap agreements in place at December 31, 2006, a 100 basis point change in the applicable interest rates would increase or decrease Apria s annual cash flow and pretax earnings by approximately $2.1 million. See Management s Discussion and Analysis of Financial Condition and Results of Operations *Long-term Debt Hedging Activities.*

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Report of the Independent Registered Public Accounting Firm and the Consolidated Financial Statements listed in the Index to Consolidated Financial Statements and Financial Statement Schedule are filed as part of this report.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this report, the company carried out an evaluation, under the supervision and with the participation of the company s management, including the company s principal executive officer and principal financial officer, of the effectiveness of the design and operation of the company s disclosure controls and procedures. Based upon that evaluation, the principal executive officer and principal financial officer each concluded that the company s disclosure controls and procedures are effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

During the period covered by this report, there have been no significant changes to the company s internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, the company s internal control over financial reporting.

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MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Apria s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The company s internal control over financial reporting system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance that material misstatements will be prevented or detected on a timely basis. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including the principal executive and financial officers, the company has conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that its internal control over financial reporting was effective as of December 31, 2006.

Management s assessment of the effectiveness of internal control over financial reporting as of December 31, 2006 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in its report on management s assessment of Apria s internal control over financial reporting, which is included herein.

March 1, 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Apria Healthcare Group Inc.
Lake Forest, California

We have audited management s assessment, included in the accompanying Management s Report on Internal Control Over Financial Reporting that Apria Healthcare Group, Inc. and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2006 of the Company and our report dated March 1, 2007 expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph regarding the Company s adoption of a new accounting standard, Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment,* and the Company s adoption of Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.*

/s/ DELOITTE & TOUCHE LLP
Costa Mesa, CA
March 1, 2007

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Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information with respect to this Item is incorporated by reference from the company s definitive Proxy Statement to be filed with the Commission within 120 days after the end of the company s fiscal year. Information regarding executive officers of the company is set forth in Item 1 Business Executive Officers of the Registrant.

Item 11. EXECUTIVE COMPENSATION

Information with respect to this Item is incorporated by reference from the company s definitive Proxy Statement to be filed with the Commission within 120 days after the end of the company s fiscal year.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information with respect to this Item is incorporated by reference from the company s definitive Proxy Statement to be filed with the Commission within 120 days after the end of the company s fiscal year. Information regarding securities authorized for issuance in Item 5 Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Equity Compensation Plans.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information with respect to this Item is incorporated by reference from the company s definitive Proxy Statement to be filed with the Commission within 120 days after the end of the company s fiscal year.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information with respect to this Item is incorporated by reference from the company s definitive Proxy Statement to be filed with the Commission within 120 days after the end of the company s fiscal year.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE

(a) 1. The financial statements described in the Index to Consolidated Financial Statements and Financial Statement Schedule are included in this Annual Report on Form 10-K starting at page F-1.

2. The financial statement schedule is included on page S-1.

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

3. Exhibits included or incorporated by reference herein:

See exhibit index.

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Apria Healthcare Group Inc.
Lake Forest, California

We have audited the accompanying consolidated balance sheets of Apria Healthcare Group, Inc. and subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and the financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Apria Healthcare Group, Inc. and subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2007 expressed an unqualified opinion on management s assessment of the effectiveness of the Company s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

As discussed in Note 7 to the consolidated financial statements, the Company changed its method of accounting for share based payments effective January 1, 2006, to conform to Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* and prospectively adjusted the 2006 financial statements for the change. Also as discussed in Note 1 to the consolidated financial statements, the Company changed its method of evaluating misstatements effective for fiscal years ending after November 15, 2006, to conform to Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.*

/s/ DELOITTE & TOUCHE LLP
Costa Mesa, California
March 1, 2007

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APRIA HEALTHCARE GROUP INC.
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	December 31, 2006	2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 14,657	$ 23,304
Accounts receivable, less allowance for doubtful accounts of $27,324 and $41,527 at December 31, 2006 and 2005, respectively	211,097	226,478
Inventories, net	40,681	42,571
Deferred income taxes	36,648	30,916
Deferred expenses	22,712	
Prepaid expenses and other current assets	19,142	20,732
TOTAL CURRENT ASSETS	344,937	344,001
PATIENT SERVICE EQUIPMENT, less accumulated depreciation of $445,608 and $446,728 at December 31, 2006 and 2005, respectively	212,068	225,575
PROPERTY, EQUIPMENT AND IMPROVEMENTS, NET	52,975	46,087
DEFERRED INCOME TAXES		4,059
GOODWILL	539,187	540,985
INTANGIBLE ASSETS, NET	6,551	10,580
DEFERRED DEBT ISSUANCE COSTS, NET	4,612	5,248
OTHER ASSETS	8,166	9,363
	$ 1,168,496	$ 1,185,898
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 66,969	$ 63,984
Accrued payroll and related taxes and benefits	46,532	51,167
Income taxes payable	10,793	8,664
Other accrued liabilities	44,804	42,511
Deferred revenue	32,280	
Current portion of long-term debt	2,145	4,465
TOTAL CURRENT LIABILITIES	203,523	170,791
LONG-TERM DEBT, net of current portion	485,000	640,855
DEFERRED INCOME TAXES	60,815	38,079
OTHER NON-CURRENT LIABILITIES	8,727	9,009
TOTAL LIABILITIES	758,065	858,734
COMMITMENTS AND CONTINGENCIES (Notes 10 and 12)		

STOCKHOLDERS EQUITY		
Preferred stock, $.001 par value:		
10,000,000 shares authorized; none issued		
Common stock, $.001 par value:		
150,000,000 shares authorized; 59,762,307 and 59,215,749 shares issued at December 31, 2006 and 2005, respectively; 42,789,450 and 42,250,564 outstanding at December 31, 2006 and 2005, respectively	60	59
Additional paid-in capital	482,123	468,099
Treasury stock, at cost; 16,972,857 and 16,965,185 shares at December 31, 2006 and 2005, respectively	(429,573)	(429,432)
Retained earnings	357,470	287,982
Accumulated other comprehensive income	351	456
TOTAL STOCKHOLDERS EQUITY	410,431	327,164
	$ 1,168,496	$ 1,185,898

See notes to consolidated financial statements.

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APRIA HEALTHCARE GROUP INC.
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
(in thousands, except per share data)	**2006**	**2005**	**2004**
Net revenues:			
Fee for service arrangements	$ 1,355,818	$ 1,327,777	$ 1,312,269
Capitation arrangements	161,489	146,324	139,180
TOTAL NET REVENUES	1,517,307	1,474,101	1,451,449
Costs and expenses:			
Cost of net revenues:			
Product and supply costs	345,552	309,413	271,723
Patient service equipment depreciation	113,177	111,759	119,391
Respiratory therapy services	38,501	34,669	
Nursing services	8,825	9,078	10,644
Other	15,384	14,369	15,686
TOTAL COST OF NET REVENUES	521,439	479,288	417,444
Provision for doubtful accounts	38,723	46,948	48,567
Selling, distribution and administrative	804,365	792,177	777,671
Qui tam settlement and related costs (Note 12)		19,258	
Amortization of intangible assets	5,080	6,941	6,712
TOTAL COSTS AND EXPENSES	1,369,607	1,344,612	1,250,394
OPERATING INCOME	147,700	129,489	201,055
Interest expense	31,205	22,972	20,799
Interest income	(1,742)	(853)	(779)
Write-off of deferred debt issuance costs			2,730
INCOME BEFORE TAXES	118,237	107,370	178,305
Income tax expense	43,257	40,429	64,297
NET INCOME	$ 74,980	$ 66,941	$ 114,008
Basic net income per common share	$ 1.77	$ 1.39	$ 2.31
Diluted net income per common share	$ 1.75	$ 1.37	$ 2.27

See notes to consolidated financial statements.

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APRIA HEALTHCARE GROUP INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands)	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Treasury Stock Shares	Treasury Stock Cost	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders Equity
Balance at December 31, 2003	57,317	$ 57	$ 414,220	6,210	$ (154,432)	$ 107,033	$ (930)	$ 365,948
Exercise of stock options	893	1	18,314					18,315
Tax benefits related to stock options			2,587					2,587
Compensatory stock options and awards	26		4,423					4,423
Repurchases of common stock				3,418	(100,000)			(100,000)
Unrealized gain on interest rate swap agreements, net of taxes							904	904
Net income						114,008		114,008
Total comprehensive income						114,008	904	114,912
Balance at December 31, 2004	58,236	$ 58	$ 439,544	9,628	$ (254,432)	$ 221,041	$ (26)	$ 406,185
Exercise of stock options	937	1	21,179					21,180
Tax benefits related to stock options			4,117					4,117
Compensatory stock options and awards	43		3,259					3,259
Repurchases of common stock				7,337	(175,000)			(175,000)

Unrealized gain on interest rate swap agreements, net of taxes							482	482
Net income						66,941		66,941
Total comprehensive income						66,941	482	67,423
Balance at December 31, 2005	59,216	$ 59	$ 468,099	16,965	$ (429,432)	$ 287,982	$ 456	$ 327,164
Cumulative effect adjustment pursuant to adoption of SAB No. 108						(5,492)		(5,492)
Exercise of stock options	508	1	8,244					8,245
Tax benefits related to stock options			17					17
Compensatory stock options and awards	38		5,763					5,763
Restricted stock retained in treasury upon vesting				8	(141)			(141)
Unrealized loss on interest rate swap agreements, net of taxes							(105)	(105)
Net income						74,980		74,980
Total comprehensive income						74,980	(105)	74,875
Balance at December 31, 2006	59,762	$ 60	$ 482,123	16,973	$ (429,573)	$ 357,470	$ 351	$ 410,431

See notes to consolidated financial statements.

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APRIA HEALTHCARE GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
(in thousands)	**2006**	**2005**	**2004**
OPERATING ACTIVITIES			
Net income	$ 74,980	$ 66,941	$ 114,008
Items included in net income not requiring cash:			
Provision for doubtful accounts	38,723	46,948	48,567
Depreciation	133,563	133,677	140,762
Amortization of intangible assets	5,080	6,941	6,712
Amortization of deferred debt issuance costs	1,755	1,729	5,153
Deferred income taxes	24,673	(5,210)	20,798
Share-based compensation	5,762	3,259	4,423
Loss on disposition of assets and other	(81)		(682)
Changes in operating assets and liabilities, exclusive of effects of acquisitions:			
Accounts receivable	(23,342)	(54,198)	(70,302)
Inventories, net	2,025	(561)	(9,372)
Prepaid expenses and other assets	7,094	3,451	832
Accounts payable, exclusive of book cash overdraft	7,717	2,907	1,050
Accrued payroll and related taxes and benefits	(4,775)	3,547	4,308
Income taxes payable	2,145	(6,427)	7,935
Excess tax benefits from shared-based compensation	(403)		
Deferred revenue, net of related expenses	560		
Accrued expenses	5,438	3,295	(2,577)
NET CASH PROVIDED BY OPERATING ACTIVITIES	280,914	206,299	271,615
INVESTING ACTIVITIES			
Purchases of patient service equipment and property, equipment and improvements, exclusive of effects of acquisitions	(125,628)	(118,867)	(137,358)
Proceeds from disposition of assets	778	767	211
Cash paid for acquisitions, including payments of deferred consideration	(8,082)	(105,471)	(144,235)
NET CASH USED IN INVESTING ACTIVITIES	(132,932)	(223,571)	(281,382)
FINANCING ACTIVITIES			
Proceeds from revolving credit facilities	29,800	216,250	250,850
Payments on revolving credit facilities	(184,800)	(51,000)	(26,100)

Payments on term loans			(244,063)
Payments on other long-term debt	(7,030)	(7,854)	(9,033)
Change in book cash overdraft included in accounts payable	(2,128)	(2,384)	1,419
Capitalized debt issuance costs	(1,119)	(15)	(2,775)
Repurchases of common stock		(175,000)	(100,000)
Excess tax benefits from shared-based compensation	403		
Issuances of common stock	8,245	21,180	18,315
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(156,629)	1,177	(111,387)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,647)	(16,095)	(121,154)
Cash and cash equivalents at beginning of year	23,304	39,399	160,553
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 14,657	$ 23,304	$ 39,399

SUPPLEMENTAL DISCLOSURES See Note 6 and Note 8 for cash paid for interest and income taxes, respectively.

NON-CASH TRANSACTIONS See Statements of Stockholders Equity, Note 4 and Note 10 for tax benefit from stock option exercises, non-cash treasury stock transaction, liabilities assumed in acquisitions and purchase of property and equipment under capital leases, respectively.

Purchases of patient service equipment and property, equipment and improvements exclude purchases that remain unpaid at the end of the respective year. Such amounts are then included in the following year s purchases. Unpaid purchases were $8,152, $10,754 and $10,895 at December 31, 2006, 2005 and 2004, respectively.

See notes to consolidated financial statements.

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APRIA HEALTHCARE GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These statements include the accounts of Apria Healthcare Group Inc. (Apria or the company) and its subsidiaries. Intercompany transactions and accounts have been eliminated in consolidation.

Company Background and Segment Reporting: Apria operates in the home healthcare segment of the healthcare industry, providing a variety of clinical services and related products and supplies as prescribed by a physician or authorized by a case manager as part of a care plan. Essentially all products and services offered by the company are provided through the company s network of approximately 475 branch facilities, which are located throughout the United States and are currently organized into three geographic divisions. The company s chief operating decision maker evaluates operating results on a divisional basis and, therefore, each division is designated an operating segment (previously company s 15 regions). All divisions provide the same products and services, including respiratory therapy, infusion therapy and home medical equipment and supplies. For financial reporting purposes, all of the company s operating segments are aggregated into one reportable segment in accordance with the aggregation criteria of Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information.

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

Revenue Recognition and Concentration of Credit Risk: Revenues are recognized on the date services and related products are provided to patients and are recorded at amounts estimated to be received under reimbursement arrangements with third-party payors, including private insurers, prepaid health plans, Medicare and Medicaid. For the years 2006, 2005 and 2004, revenues reimbursed under arrangements with Medicare and Medicaid were approximately 36%, 39% and 38%, respectively, as a percentage of total revenues. In all three years presented, no other third-party payor group represented more than 9% of the company s revenues. The majority of the company s revenues are derived from fees charged for patient care under fee-for-service arrangements. Revenues derived from capitation arrangements represented 11% of total net revenues for 2006 and less than 10% of total net revenues for 2005 and 2004. Capitation revenue is earned as a result of entering into a contract with a third party to provide its members certain services without regard to the actual services provided, therefore revenue is recognized in the period that the beneficiaries are entitled to health care services.

Cash and Cash Equivalents: Apria maintains cash with various financial institutions. These financial institutions are located throughout the United States and the company s cash management practices limit exposure to any one institution. Outstanding checks, which are reported as a component of accounts payable, were $18,519,000 and $20,647,000 at December 31, 2006 and 2005, respectively. Management considers all highly liquid instruments purchased with a maturity of less than three months to be cash equivalents.

Accounts Receivable: Included in accounts receivable are earned but unbilled receivables of $30,036,000 and $39,015,000 at December 31, 2006 and 2005, 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 Apria s analysis of historical performance and collectibility.

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

Management performs periodic analyses to evaluate accounts receivable balances to ensure that recorded amounts reflect estimated net realizable value. Specifically, management considers historical realization data, accounts receivable aging trends, other operating trends, 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

Accounts receivable are reduced by an allowance for doubtful accounts which provides for those accounts from which payment is not expected to be received, although services were provided and revenue was earned. Upon determination that an account is uncollectible, it is written-off and charged to the allowance.

Inventories: Inventories are stated at the lower of cost (first-in, first-out method) or market and consist primarily of pharmaceuticals and items used in conjunction with patient service equipment.

Patient Service Equipment: Patient service equipment is stated at cost and consists of medical equipment provided to in-home patients. Depreciation is provided using the straight-line method over the estimated useful lives of the equipment, which range from one to ten years.

Property, Equipment and Improvements: Property, equipment and improvements are stated at cost. Included in property and equipment are assets under capitalized leases which consist of information systems hardware and software. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Estimated useful lives for each of the categories presented in Note 3 are as follows: leasehold improvements the shorter of the remaining lease term or seven years; equipment and furnishings three to fifteen years; and information systems three to six years.

Capitalized Software: Included in property, equipment and improvements are costs related to internally developed and purchased software that are capitalized and amortized over periods not exceeding five years. Capitalized costs include direct costs of materials and services incurred in developing or obtaining internal-use software and payroll and benefit costs for employees directly involved in the development of internal-use software.

Long-Lived Assets: The recoverability of long-lived assets, including property and equipment and certain identifiable intangible assets, is evaluated in accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 requires the company to review for impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Factors considered important which could trigger an impairment review include:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of use of the assets or the strategy for our overall business;
- significant decrease in the market value of the assets; and
- significant negative industry or economic trends.

When it is determined that the carrying amount of long-lived assets may not be recoverable based upon the existence of one or more of the above indicators, management assesses the assets for impairment based on the estimated future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the carrying amount of an asset exceeds its estimated future undiscounted cash flows, an impairment loss is recorded for the excess of the asset s carrying amount over its fair value. Fair value is generally determined based on the estimated future discounted cash flows over the remaining useful life of the asset using a discount rate determined by management to be commensurate with the risk inherent in the company s current business model. The assumptions supporting the cash flows, including the discount rates, are determined using management s best estimates as of the date of the impairment review. If these estimates or their related assumptions change in the future, the company may be required to record additional impairment charges for these assets, and future results of operations could be adversely affected.

Goodwill: Goodwill arising from business combinations represents the excess of the purchase price over the estimated fair value of the net assets of the businesses acquired. In accordance with the provisions of SFAS No. 142, Goodwill and Other Intangible Assets, goodwill is not amortized but tested annually for impairment or more frequently if circumstances indicate the possibility of impairment. Management does not believe any impairment of its goodwill existed at December 31, 2006.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Intangible Assets: Intangible assets consist of covenants not to compete, tradenames and customer lists, all of which arose from business combinations. The values assigned to the covenants are amortized on a straight-line basis over their contractual terms, which range from three to five years. The customer list and tradename valuations are amortized over their period of expected benefit, which averages 9 months and 24 months, respectively. Management tests for impairment in accordance with SFAS No. 142.

Deferred Debt Issuance Costs: Apria capitalizes debt issuance costs which include those associated with its revolving credit facility and the convertible senior notes. Such costs are classified as non-current assets. Costs relating to the revolving credit facility are being amortized through the maturity date of June, 2011. Costs relating to the convertible senior notes are amortized from the issuance date through September, 2008. See Note 6 Long-term Debt.

Fair Value of Financial Instruments: The carrying value of Apria s bank debt approximates fair value because the underlying instruments are variable notes that reprice frequently. The fair value of the convertible senior notes, as determined by reference to quoted market prices, is $242,398,000 and $240,625,000 at December 31, 2006 and 2005, respectively. The carrying amounts of cash and cash equivalents, accounts receivable, trade payables and accrued expenses approximate fair value due to their short maturity.

Respiratory Therapy Expenses: Respiratory therapy expenses presented within 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. Apria s respiratory therapy personnel are also engaged in a number of administrative and marketing tasks, and accordingly, these costs are classified within selling, distribution and administrative expenses and amounted to $15,694,000 in 2006 and $18,807,000 in 2005.

Apria adopted the classification described above in 2005. During prior years, the data was not captured in the detail necessary to make a corresponding reclassification. Therefore, all respiratory therapy expenses for 2004 are classified within selling, distribution and administrative expenses and totaled $50,004,000.

Nursing Expenses: Nursing expenses presented within cost of net revenues are comprised primarily of employee salary and benefit costs, as well as fees paid to contracted workers who are deployed to service a patient. The majority of these costs relate to the company s infusion therapy service line which were previously classified as selling, distribution and administrative expenses. Additional nursing costs that are currently, and were previously, presented within the cost of net revenues relate to a small ancillary nursing service business that generates approximately $1,000,000 in revenue annually.

Apria adopted the classification described above in 2005. Certain nursing expenses incurred by the infusion therapy business, including administrative and marketing costs, remain within selling, distribution and administrative expenses and totaled $4,000,000, $3,948,000 and $4,189,000 for 2006, 2005 and 2004, respectively.

Distribution Expenses: Distribution expenses are included in selling, distribution and administrative expenses and totaled $174,273,000, $171,724,000 and $157,142,000 in 2006, 2005, and 2004, respectively. Such expense represents the cost incurred to deliver product to the end user. Included are leasing, maintenance, licensing and fuel costs associated with the company s 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 as discussed in Emerging Issues Task Force No. 00-10 Accounting for Shipping and Handling Fees and Costs, which permits their income statement classification within selling and administrative expenses.

Self-Insurance: Apria is self -insured for certain employee medical claims and benefits, as well as workers compensation, vehicle liability, professional and general liability coverages. Accruals for medical claims at December 31, 2006 and 2005 were $10,061,000 and $7,239,000, respectively. Amounts accrued for costs of the other liability coverages totaled $10,977,000 and $11,763,000 at December 31, 2006 and 2005, respectively. All such amounts are classified in other accrued liabilities.

Advertising: Advertising costs are initially established as a prepaid expense and amortized over the period of expected benefit. Such expenses are included in selling, distribution and administrative expenses and amounted to $5,849,000, $6,844,000 and $4,799,000 for 2006, 2005 and 2004, respectively.

Income Taxes: Apria provides for income taxes in accordance with provisions specified in SFAS No. 109, Accounting for Income Taxes. Accordingly, deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities. These differences will result in taxable or deductible amounts in the future, based on tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to amounts that are more likely than not to be realized.

Derivative Instruments and Hedging Activities: From time to time Apria uses derivative financial instruments to limit exposure to interest rate fluctuations on the company s variable rate long-term debt. The company accounts for derivative instruments pursuant to the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. The company s derivatives are recorded on the balance sheet at their fair value and, for derivatives accounted for as cash flow hedges, any unrealized gains or losses on their fair value are included, net of tax in operating income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Share-Based Compensation: Prior to 2006, the company accounted for its stock-based compensation plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. For 2005 and 2004, net income reflects compensation expense for restricted stock awards and restricted stock purchase rights valued in accordance with APB No. 25.

Apria adopted the provisions of SFAS No. 123R, Share-Based Payment on January 1, 2006. The company elected to employ the modified prospective transition method and, accordingly, financial statement amounts for prior periods presented have not been restated to reflect the fair value method of expensing share-based compensation. The company elected to use the short-cut method, as provided by SFAS No. 123R, for determining the historical pool of tax benefits. See Note 7 Share-Based Compensation and Stockholders Equity.

Comprehensive Income: For the years ended December 31, 2006, 2005 and 2004, the difference between net income and comprehensive income is $(105,000), $482,000 and $904,000, respectively, net of taxes, which is attributable to unrealized (losses) and gains on various interest rate swap agreements.

Per Share Amounts: Basic net income per share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding. Diluted net income per share includes the effect of the potential shares outstanding, including dilutive stock options and other awards, using the treasury stock method.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment. This statement replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123R requires a company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. The cost is recognized over the period during which the employee is required to provide service in exchange for the award (usually the vesting period). Apria adopted the statement January 1, 2006. See Note 7 Share-Based Compensation.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, which replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 changes the accounting for, and the reporting of, a change in accounting principle. The statement also defines and requires retrospective application of a change in accounting principle to prior periods financial statements unless impracticable. If retrospective application is impracticable, the new accounting principle must be applied to the asset and liability balances as of the beginning of the earliest period practicable and a corresponding adjustment to the opening balance of retained earnings for the same period, rather than being reported in the income statement. Additionally, SFAS No. 154 addresses a change in accounting for estimates effected by a change in accounting principle and redefines restatement as a revision to reflect the correction of an error. The statement is effective for accounting changes and error corrections made in fiscal years beginning after December 15, 2005. Accordingly, Apria adopted the statement January 1, 2006. The adoption of SFAS No. 154 did not have a material effect on the company s consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments. The statement amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. The statement is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. Accordingly, the company adopted SFAS No. 155 on January 1, 2007. Such adoption did not have a material effect on the company s consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No.109, Accounting for Income Taxes. This standard creates a comprehensive model to address accounting for uncertainty in tax positions. FIN No. 48, clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized for financial statements. FIN No. 48 also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN No. 48 will be effective for fiscal periods beginning after December 15, 2006. The Company adopted FIN No. 48 as of January 1, 2007 and estimates that it will record a cumulative effect adjustment of a range of approximately $3,000,000 to $5,000,000 to increase its uncertain tax positions accrual. This estimated cumulative effect adjustment will be charged to opening retained earnings.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

In September 2006, The FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management is currently evaluating the statement to determine what, if any, impact it will have on the company s consolidated financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 (SAB No. 108), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, which provides guidance on quantifying financial statement misstatements. SAB No. 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements. SAB No. 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006.

Traditionally, there have been two widely recognized methods for quantifying the effects of financial statement misstatements: the roll-over method and the iron curtain method. The roll-over method focuses primarily on the impact of a misstatement on the income statement, including the reversing effect of prior year misstatements, but its use can lead to the accumulation of misstatements in the balance sheet. The iron-curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. Prior to Apria s application of the guidance in SAB No. 108, Apria management used the roll-over method for quantifying financial statement misstatements.

In SAB No. 108, the SEC staff established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company s financial statements and the related financial statement disclosures. This model is commonly referred to as a dual approach because it requires quantification of errors under both the iron curtain and the roll-over methods.

SAB No. 108 permits existing public companies to initially apply its provisions either by (i) restating prior financial statements as if the dual approach had always been applied or (ii) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities with an offsetting adjustment recorded to the opening balance of retained earnings. Apria elected to record the effects of applying SAB No. 108 using the cumulative effect transition method. The misstatement that has been corrected is described below.

Approximately 50% of Apria s net revenues are derived from rental arrangements to provide respiratory and other home medical equipment to patients in the home. Apria bills for these services on a monthly basis. The initial billing and revenue recognition is generated upon proper qualification of the patient and confirmation of delivery. Subsequent billings are processed monthly until the period of medical necessity ends. As a matter of process, Apria generates the subsequent billings in 30-day cycles so that each month s billing falls on approximately the same day of the month as the initial billing. Prior to application of SAB No. 108, rental revenue was recognized in the month of billing.

This accounting treatment resulted in an overstatement of rental revenue at a given month-end, as a portion of that revenue corresponding to the portion of the rental period that fell into the subsequent month, had not yet been earned. As a result of the revenue misstatement, the corresponding expenses were also recognized before actually incurred. Apria management previously quantified these errors under the roll-over method and concluded that they were immaterial.

In its application of SAB No. 108, Apria corrected the aforementioned errors by deferring unearned rental revenues and establishing a deferred revenue line item on its balance sheet. The corresponding expenses have been deferred through the establishment of a deferred expense line item. Such deferral of revenues and expenses also required adjustment to deferred income taxes. Apria adopted SAB No. 108 in the fourth quarter of 2006 and elected the cumulative effect transition method of application. Accordingly, Apria adjusted the carrying values of the applicable assets and liabilities with an offsetting adjustment to its opening balance of retained earnings. This correcting entry and the balance sheet line items that were affected are summarized in the following table:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands)		Adjustment Recorded as of December 31, 2006
Balance Sheet		
Deferred expenses	$	22,712
Deferred income tax liability		(8,867)
Deferred revenue		(32,280)
Deferred income tax asset		12,602
Retained earnings, beginning		5,492
Statement of Income		
Net revenues	$	466
Cost of net revenues		(22)
Selling, distribution and administrative expenses		(72)
Income before taxes		560
Income taxes		219
Net income	$	341

NOTE 3 PROPERTY, EQUIPMENT AND IMPROVEMENTS

Property, equipment and improvements consist of the following:

	December 31,			
(in thousands)		2006		2005
Leasehold improvements	$	36,770	$	33,942
Equipment and furnishings		56,696		55,540
Information systems hardware		88,396		77,559
Information systems software		51,753		41,544
		233,615		208,585
Less accumulated depreciation		(180,640)		(162,498)
	$	52,975	$	46,087

Depreciation expense for property, equipment and improvements was $20,387,000, $21,918,000 and $21,371,000 for 2006, 2005 and 2004, respectively.

NOTE 4 BUSINESS COMBINATIONS

During 2006, Apria acquired three complementary businesses within specific geographic markets, comprised primarily of home respiratory therapy businesses. Similarly, the company acquired 21 companies during 2005 and 27 in 2004. For all periods presented, these all-cash transactions were accounted for as purchases and, accordingly, the results of operations of the acquired businesses are included in the consolidated income statements from the dates of acquisition. The purchase prices were allocated to the various underlying tangible and intangible assets and liabilities on the basis of estimated fair value.

The following table summarizes the allocation of the purchase prices of all acquisitions made by the company. Payments deferred from prior years totaled $4,523,000, $8,576,000 and $4,646,000 for the years 2006, 2005 and 2004, respectively. At December 31, 2006, 2005 and 2004, outstanding deferred consideration totaled $108,000, $5,682,000 and $8,575,000, respectively, and is included in the consolidated balance sheets in other accrued liabilities.

Cash paid (received) for acquisitions:

	Year Ended December 31,		
(in thousands)	**2006**	**2005**	**2004**
Fair value of patient service equipment acquired	$ 1,923	$ 7,453	$ 9,880
Fair value of property and equipment acquired	4	985	1,995
Fair value of other assets acquired	641	1,577	2,712
Intangible assets	1,100	7,613	9,263
Goodwill	(1,112)	85,362	125,091
Total assets acquired	2,556	102,990	148,941
Liabilities assumed and accrued, net of payments deferred from prior years	5,526	2,481	(4,706)
Net assets acquired	$ 8,082	$ 105,471	$ 144,235

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Cash paid (received) for acquisitions:

The following supplemental unaudited pro forma information presents the combined operating results of Apria and the businesses that were acquired by Apria during 2006, 2005 and 2004, as if the acquisitions had occurred at the beginning of each of the periods presented. The pro forma information is based on the historical financial statements of Apria and those of the acquired businesses. Amounts are not necessarily indicative of the results that may have been attained had the combinations been in effect at the beginning of the periods presented or that may be achieved in the future.

	Year Ended December 31,		
(in thousands, except per share data)	**2006**	**2005**	**2004**
Net revenues	$ 1,523,656	$ 1,551,002	$ 1,646,988
Net income	76,012	70,865	127,217
Basic net income per common share	$ 1.79	$ 1.47	$ 2.58
Diluted net income per common share	$ 1.77	$ 1.45	$ 2.54

NOTE 5 GOODWILL AND INTANGIBLE ASSETS

Apria accounts for its business combinations in accordance with SFAS No. 141, Business Combinations, which requires that the purchase method of accounting be applied to all business combinations and addresses the criteria for initial recognition of intangible assets and goodwill. In accordance with SFAS No. 142, goodwill and other intangible assets with indefinite lives are not amortized but are tested for impairment annually, or more frequently if circumstances indicate the possibility of impairment. If the carrying value of goodwill or an intangible asset exceeds its fair value, an impairment loss shall be recognized.

Apria s goodwill impairment test is conducted at a reporting unit level and compares each reporting unit s fair value to its carrying value. The company has determined that its geographic divisions are reporting units under SFAS No. 142 (previously its regions). The measurement of fair value for each division is based on an evaluation of future discounted cash flows and is further tested using a multiple of earnings approach. For all years presented, Apria s tests indicated that no impairment existed and, accordingly, no loss has been recognized.

For the year ended December 31, 2006, the net decrease in the carrying amount of goodwill of $1,798,000 is the result of the write off of goodwill in the sale of a previously-acquired business back to the original seller; adjustments to preliminary acquisition valuations that resulted in goodwill decreases; and goodwill recorded from 2006 acquisitions. All of the goodwill recorded in conjunction with business combinations for the periods presented is expected to be deductible for tax purposes.

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

		December 31, 2006			December 31, 2005		
(dollars in thousands)	**Average Life in Years**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Book Value**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Book Value**
Covenants not to compete	5.0	$ 13,506	$ (7,313)	$ 6,193	$ 16,352	$ (6,316)	$ 10,036
Tradenames					628	(440)	188

Customer lists	1.0	1,283	(925)	358	1,588	(1,232)	356
	3.6	$ 14,789	$ (8,238)	$ 6,551	$ 18,568	$ (7,988)	$ 10,580

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Amortization expense amounted to $5,080,000, $6,941,000 and $6,712,000 for the years 2006, 2005 and 2004, respectively. Estimated amortization expense for each of the fiscal years ending December 31, is presented below:

Year Ending December 31,	***(in thousands)***
2007	$ 2,916
2008	2,066
2009	1,254
2010	315

NOTE 6 LONG-TERM DEBT

Long-term debt consists of the following:

	December 31,	
(in thousands)	**2006**	**2005**
Notes payable relating to revolving credit facilities	$ 235,000	$ 390,000
Convertible senior notes	250,000	250,000
Capital lease obligations (see Note 10)		1,111
Other	2,145	4,209
	487,145	645,320
Less: current maturities	(2,145)	(4,465)
	$ 485,000	$ 640,855

Revolving Credit Facility: Apria s senior secured credit agreement with Bank of America and a syndicate of lenders was amended effective June 23, 2006. The amendment extended the maturity date from November 23, 2009 to June 23, 2011 and lowered the applicable interest rate margins and commitment fees.

The credit agreement is structured as a $500 million revolving credit facility and permits Apria to select one of two variable interest rates. One option is the base rate, which is expressed as the higher of (a) the Federal Funds rate plus 0.50% or (b) the Bank of America prime rate. The other option is the Eurodollar rate, which is based on the London Interbank Offered Rate (LIBOR). Interest on outstanding balances under the credit agreement is determined by adding a margin to the Eurodollar rate or base rate in effect at each interest calculation date. The applicable margin for the revolving credit facility is based on Apria s debt rating as determined by either Standard and Poor s Ratings Services or Moody s Investor Services with respect to the credit facility.

The new applicable margins range from 0.625% to 1.25% for Eurodollar loans and from zero to 0.25% for base rate loans. The range for commitment fees on the unused portion of the revolving credit facility is now 0.10% to 0.20%. The effective interest rate at December 31, 2006, after consideration of the effect of the swap agreements, was 6.25%. Without the effect of the swap agreements, such rate would have been 6.35%.

At December 31, 2006, borrowings under the revolving credit facility were $235,000,000, outstanding letters of credit totaled $3,855,000 and credit available under the revolving facility was $261,145,000. At December 31, 2006, the company was in compliance with all of the financial covenants required by the credit agreement. Borrowings under the credit facility are secured by a pledge of the common stock of all of the company's subsidiaries.

Convertible Senior Notes: In August 2003, Apria issued convertible senior notes in the aggregate principal amount of $250,000,000 under an indenture between Apria and U.S. Bank National Association. The notes were issued in a private placement at an issue price of $1,000 per note (100% of the principal amount at maturity) and were subsequently registered with the Securities and Exchange Commission. The notes will mature on September 1, 2033, unless earlier converted, redeemed or repurchased by Apria. Apria may redeem some or all of the notes at any time after September 8, 2010, at a redemption price equal to 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest and contingent interest, if any, to the redemption date. The holders of the notes may require Apria to repurchase some or all of the notes at a repurchase price equal to 100% of the principal amount of the notes plus accrued and unpaid interest, including contingent interest, up to but excluding the applicable repurchase date, initially on September 1, 2008, and subsequently on September 1 of 2010, 2013, 2018, 2023 and 2028, or at any time prior to their maturity following a fundamental change, as defined in the indenture. Any notes that Apria is required to repurchase will be paid for in cash, pursuant to the terms of a December 2004 amendment to the indenture which eliminated the company s option of paying part of the repurchase price in common stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The notes bear interest at the rate of $3^3/_8$% per annum, which is payable on September 1 and March 1 of each year, beginning on March 1, 2004. Also, during certain periods commencing on September 8, 2010, Apria will pay contingent interest on the interest payment date for the applicable interest period if the average trading price of the notes during the five trading days ending on the third day immediately preceding the first day of the applicable interest period equals or exceeds 120% of the principal amount of the notes. The contingent interest payable per note will equal 0.25% per year of the average trading price of such note during the applicable five trading-day reference period. During certain periods, the notes are convertible, at the holders option, into shares of Apria common stock, initially at a conversion rate of 28.6852 shares of common stock per $1,000 principal amount of notes, subject to adjustment and under certain circumstances as outlined in the indenture.

The notes are unsecured and unsubordinated obligations and are senior in right of payment to any subordinated debt of the company. The notes rank junior to the company s senior secured credit facility to the extent of the assets securing such indebtedness.

Maturities of long-term debt are as follows:

Year Ending December 31,	***(in thousands)***
2007	$ 2,145
2008	
2009	
2010	
2011	235,000
Thereafter	250,000
	$ 487,145

Total interest paid on debt in 2006, 2005 and 2004 amounted to $29,891,000, $18,783,000 and $18,090,000, respectively.

Hedging Activities: Apria is exposed to interest rate fluctuations on its underlying variable rate long-term debt. Apria s policy for managing interest rate risk is to evaluate and monitor all available relevant information, including but not limited to, the structure of its interest-bearing assets and liabilities, historical interest rate trends and interest rate forecasts published by major financial institutions. The tools Apria may utilize to moderate its exposure to fluctuations in the relevant interest rate indices include, but are not limited to: (1) strategic determination of repricing periods and related principal amounts, and (2) derivative financial instruments such as interest rate swap agreements, caps or collars. Apria does not use derivatives for trading or other speculative purposes.

During 2006, Apria had two interest rate swap agreements in effect to fix its LIBOR-based variable rate debt. One of the agreements, which expired in December 2006, had a notional amount of $25,000,000 and a fixed rate of 3.42%. The other agreement, a forward-starting contract with a three-year term, became effective in January 2006, and has a notional amount of $25,000,000 that fixes an equivalent amount of the company s variable rate debt at 4.44%.

In 2005, Apria had two interest rate swap agreements. Each agreement had a notional amount of $25,000,000, with one agreement expiring in December 2005 and the other agreement expiring in December 2006. In 2004, Apria also had two swap agreements with an aggregate notional amount of $50,000,000 that expired in December 2004.

The swap agreements are being accounted for as cash flow hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. Accordingly, the difference between the interest received and interest paid is reflected as an adjustment to interest expense. For the years ended December 31, 2006, 2005 and 2004, Apria received (paid) net settlement amounts of $540,000, $11,000 and ($1,381,000), respectively. At December 31, 2006 and 2005, the aggregate fair value of the swap agreements was an asset of $356,000 and $769,000, respectively, and is reflected in the accompanying consolidated balance sheets in other assets. Unrealized gains and losses on the fair value of the swap agreements are reflected, net of taxes, in operating income as the transactions no longer qualify for hedge accounting. Apria s exposure to credit loss under the swap agreement is limited to the interest rate spread in the event of counterparty nonperformance. Apria does not anticipate losses due to counterparty nonperformance as its counterparties to the swap agreement are nationally recognized financial institutions with strong credit ratings.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 7 SHARE-BASED COMPENSATION AND STOCKHOLDERS EQUITY

Effective January 1, 2006, Apria adopted the provisions of SFAS No. 123R, Share-Based Payment, which establishes accounting for equity instruments exchanged for employee services. Under the provisions of SFAS No. 123R, share-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee s requisite service period (generally the vesting period of the equity grant). Prior to January 1, 2006, the company accounted for share-based compensation to employees in accordance with APB No. 25, Accounting for Stock Issued to Employees, and related interpretations. The company also followed the disclosure requirements of SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. The company elected to employ the modified prospective transition method as provided by SFAS No. 123R and, accordingly, financial statement amounts for the prior periods presented have not been restated to reflect the fair value method of expensing share-based compensation.

For the year ended December 31, 2006, the company recorded share-based compensation expense of $5,762,000, of which $2,081,000 was related to awards issued prior to the adoption of SFAS No. 123R. All such compensation is reflected in the accompanying condensed consolidated income statement within the selling, distribution and administrative expense line item. The related awards were granted to administrative personnel or members of the company s Board of Directors and therefore no portion of the share-based compensation has been classified within cost of net revenues. Share-based compensation expense recognized in 2006 is based on awards ultimately expected to vest; therefore, it has been reduced for estimated forfeitures. SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the pro forma information presented for periods prior to 2006, the company accounted for forfeitures as they occurred.

For the year ended December 31, 2006, Apria s adoption of SFAS No. 123R reduced the company s operating income and income before taxes by $2,323,000 and net income was reduced by $1,737,000. Basic and diluted earnings per share were each reduced by $0.04 for the year ended December 31, 2006. The adoption of SFAS No. 123R did not affect cash flow.

For the year ended December 31, 2006, cash received from the exercise of options totaled $8,245,000. Income tax benefits related to stock-based compensation arrangements amounted to $17,000.

The company estimates the fair value of stock options using the Black-Scholes valuation model. Key input assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the expected volatility of the company s stock over the option s expected term, the risk-free interest rate over the option s term, and the company s expected annual dividend yield. Apria s management believes that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in calculating the fair values of the company s stock options granted in 2006. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards.

The key input assumptions that were utilized in the valuation of the stock options granted during the year ended December 31, 2006 are summarized in the table below.

Expected option term (1)	4.8 years
Expected volatility (2)	27.3%
Risk-free interest rate (3)	4.6%
Expected annual dividend yield	0%

(1) The expected option term is based on historical exercise and post-vesting termination patterns.

(2) Expected volatility represents a combination of historical stock price volatility and implied volatility from publicly-traded options on Apria s common stock.

(3) The risk-free interest rate is based on the implied yield on a U.S. Treasury zero coupon issue with a remaining term equal to the expected term of the option.

2003 Performance Incentive Plan: In July 2003, Apria s shareholders approved the 2003 Performance Incentive Plan (2003 Plan), which permits the grant of stock options, stock appreciation rights (SARs), stock bonuses, restricted stock, performance stock, stock units, phantom stock, dividend equivalents, or similar rights to purchase or acquire shares, and cash awards. Any award may be paid or settled in cash. The 2003 Plan is currently the only plan from which stock-based awards may be granted.

The maximum number of shares that may be issued as awards under the 2003 Plan equals the sum of (1) 6,500,000 shares, plus (2) the number of shares subject to stock options granted under previous plans, which expire or are cancelled or terminated without being exercised, after the effective date of the 2003 Plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The 2003 Plan also contains the following limits:

grants of incentive stock options up to 2,000,000 shares,

grants of options and SARs during any calendar year to any individual up to 500,000 shares,

shares subject to all awards granted to an individual during any calendar year up to 1,000,000 shares,

awards granted to non-employee directors up to 700,000 shares,

awards granted, other than for stock options and SARs, up to 2,275,000 shares,

performance-based awards, other than stock options and SARs, granted to an individual up to 500,000 shares in a calendar year, and

performance-based awards, payable in cash, granted to an individual up to $10,000,000 in a calendar year.

The per share exercise price of an option or SAR (collectively referred to as options) generally may not be less than the per share fair market value on the date of grant. The maximum term of an option is ten years from the date of grant. Performance based awards may also be issued from the 2003 Plan. The vesting or payment of such awards will depend on the company s performance to established measurement criteria. The performance measurement period may range from three months to ten years. Performance based awards may be paid in stock or in cash. The company has historically issued new shares when options or stock-based awards are exercised.

The company believes that share-based awards better align the interests of its senior management and other key employees with those of its shareholders as well as serving as an effective tool to attract, retain and motivate plan participants.

Stock Options: Apria s incentive plan provides for the granting of stock options to employees and non-employee directors. Such grants to employees may include non-qualified and incentive stock options. The exercise price of an option is established at the fair market value of a share of Apria common stock on the date of grant. Vesting of stock options is time-based and is generally over a three-year period.

The following table summarizes the activity for stock options for the years ended December 31, 2004, 2005 and 2006:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2004	4,553,926	$ 21.73		
Granted	1,647,000	31.45		
Exercised	(893,270)	20.90		
Forfeited	(193,511)	26.19		
Outstanding at December 31, 2004	5,114,145	$ 24.84	7.37	$ 41,774,469
Granted	49,000	32.45		

Exercised	(920,385)		22.49		
Forfeited	(166,055)		29.20		
Outstanding at December 31, 2005	4,076,705	$	25.28	6.60	$ 7,881,252
Granted	1,056,000		23.23		
Exercised	(349,596)		20.64		
Forfeited	(726,795)		29.48		
Outstanding at December 31, 2006	4,056,314	$	24.59	6.38	$ 13,750,742
Vested or expected to vest as of December 31, 2006	3,933,107	$	24.63	6.25	$ 13,346,073
Exercisable at December 31, 2006	3,201,314	$	24.95	5.56	$ 10,819,092

The weighted-average fair value of stock options granted during the year ended December 31, 2006 was $7.39. There were 49,000 stock options granted in the corresponding period in 2005. The total intrinsic value of options exercised was $1,272,000 and $10,239,000 for the years ended December 31, 2006 and 2005, respectively.

As of December 31, 2006, total unrecognized stock-based compensation cost related to unvested stock options was $4,739,000, which is expected to be expensed over a weighted-average period of 1.44 years.

Restricted Stock Purchase Rights: In 2003 and 2004, Apria granted restricted stock purchase rights to certain members of executive management. The awards represented the right to purchase a certain number of shares of Apria common stock at a future date at a specified exercise price. The exercise price was established at 25% of the fair market value of a share of Apria common stock on the date of grant. Such awards generally require that certain performance conditions and service conditions be met before the awards will vest.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table summarizes the activity for restricted stock purchase rights for the years ended December 31, 2004, 2005 and 2006:

	Restricted Stock Purchase Rights	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2004	476,000	$ 6.49		
Granted	110,000	7.60		
Exercised				
Forfeited				
Outstanding at December 31, 2004	586,000	$ 6.70	8.71	$ 15,385,350
Granted				
Exercised	(16,000)	6.46		
Forfeited	(24,000)	6.46		
Outstanding at December 31, 2005	546,000	$ 6.71	7.72	$ 9,499,110
Granted				
Exercised	(158,500)	6.49		
Forfeited	(87,500)	6.85		
Outstanding at December 31, 2006	300,000	$ 6.79	6.76	$ 5,957,820
Vested or expected to vest as of December 31, 2006	218,371	$ 6.75	6.74	$ 4,345,307
Exercisable at December 31, 2006	16,000	$ 6.46	6.61	$ 323,040

The total intrinsic value of restricted stock purchase rights exercised was $2,592,000 and $418,000 for the years ended December 31, 2006 and 2005, respectively. No such awards were granted during these two periods.

As of December 31, 2006, total unrecognized stock-based compensation cost related to unvested restricted stock purchase rights was $3,503,000, which is expected to be expensed over a weighted-average period of 3.10 years.

Restricted Stock Awards and Units: Apria s incentive plan provides for the granting of restricted stock and restricted stock units to its non-employee directors and employees (limited to executive management). Such awards generally require that certain performance conditions and service conditions be met before the awards will vest.

The following table summarizes the activity for restricted stock awards and units for the years ended December 31, 2004, 2005 and 2006:

	Shares or Share Units	Weighted-Average Grant-Date Fair Value

Nonvested restricted stock awards and units at January 1, 2004	26,000	$	25.73
Granted	226,000		32.80
Vested and released	(26,000)		25.73
Forfeited			
Nonvested restricted stock awards and units at December 31, 2004	226,000		32.80
Granted	81,384		34.98
Vested and released	(26,000)		28.21
Forfeited			
Nonvested restricted stock awards and units at December 31, 2005	281,384		33.86
Granted	339,000		22.71
Vested and released	(38,462)		33.95
Forfeited	(95,000)		28.35
Nonvested restricted stock awards and units at December 31, 2006	486,922	$	27.16

The weighted-average fair value of restricted stock awards and units granted during the year ended December 31, 2006 was $22.71. There were 81,384 awards granted in the corresponding period in 2005. Restricted stock awards or units released during the year ended December 31, 2006 and 2005, were 38,462 and 26,000 shares, respectively. The total intrinsic value of restricted stock awards or units released was $768,000 and $832,000 for the year ended December 31, 2006 and 2005, respectively.

As of December 31, 2006, total unrecognized stock-based compensation cost related to unvested restricted stock awards and units was $9,388,000, which is expected to be expensed over a weighted-average period of 2.73 years.

Prior Period Pro Forma Presentation: Apria had previously adopted the provisions of SFAS No. 123 through disclosure only. The following table illustrates the effects on net income and earnings per share for the years ended December 31, 2005 and 2004 as if the company had applied the fair value recognition provisions of SFAS No. 123 to share-based employee awards.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousand, except per share datas)	Year Ended December 31, 2005	2004
Net income as reported	$ 66,941	$ 114,008
Add: stock-based compensation expense included in reported net income, net of related tax effects	2,032	2,828
Deduct: total stock-based compensation expense determined for all awards under fair value-based method, net of related tax effects	(13,070)	(12,869)
Pro forma net income	$ 55,903	$ 103,967
Basic net income per share:		
As reported	$ 1.39	$ 2.31
Pro forma	$ 1.16	$ 2.11
Diluted net income per share:		
As reported	$ 1.37	$ 2.27
Pro forma	$ 1.14	$ 2.07

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: risk-free interest rates of 3.78% and 3.19% for 2005 and 2004; respectively; dividend yield of 0% for both years; expected lives of 4.13 years for 2005 and 4.51 years in 2004; and volatility of 31.73% for 2005 and 42.58% for 2004.

Stock Option Acceleration: On November 30, 2005, the Compensation Committee of the Board of Directors of Apria approved the acceleration of vesting of certain outstanding employee stock options with per share prices above $26.00, so that each such option became fully vested. As a result of this action, options to purchase 863,227 shares of Apria common stock became immediately exercisable. The accelerated options represented approximately 18.6% of Apria s total outstanding options at the time of the action.

The purpose of accelerating the vesting of these options was to eliminate the compensation expense that Apria would otherwise recognize in the consolidated statements of income in future financial statements with respect to these options upon the adoption of SFAS No. 123R. More than half of the accelerated options would have vested according to their terms during 2006 and more than 77% would have vested by February 2007. As a result of the acceleration, the company expects to reduce its future share-based compensation expense by approximately $7,580,000.

Treasury Stock: All repurchased shares of common stock are held as treasury shares.

In 2006, 7,672 shares of employee restricted stock, valued at $141,000, were retained by the company upon vesting to satisfy related tax obligations.

In October 2005, Apria s Board of Directors authorized the company to repurchase up to $250,000,000 worth of its outstanding common stock. On November 7, 2005, Apria purchased 7,337,526 shares of its common stock for $175,000,000 through an accelerated share repurchase program. Under the agreement, Apria s counterparty borrowed shares that were sold to Apria at an initial price of $23.83. The counterparty then repurchased shares over a period that commenced immediately after the sale of shares to Apria. The repurchase transaction was completed in February 2006. The agreement contained a provision that subjected Apria to a purchase price adjustment based on the volume weighted average price of the company s common stock over the period during which the counterparty purchased the shares. Such provision resulted in an additional $242,000 owed to the counterparty that Apria elected to settle in cash in February 2006. This amount was recorded as a liability at December 31, 2005, with a corresponding charge to interest expense reflecting the change in the fair value of the settlement contract. The amount remaining on the aforementioned Board authorization expires at the end of the first quarter of 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

In January 2004, Apria prepaid $50,000,000 to repurchase 1,730,703 shares of its common stock at a strike price of $28.89 through an accelerated share repurchase program. The repurchase of the shares was completed in April 2004 and the share price differential was settled in cash in June 2004, for a total cost of $53,033,000. During the third quarter of 2004, the company purchased an additional 1,687,400 shares for $46,967,000.

NOTE 8 INCOME TAXES

Significant components of Apria s deferred tax assets and liabilities are as follows:

	December 31,	
(in thousands)	**2006**	**2005**
Deferred tax assets:		
Allowance for doubtful accounts	$ 13,007	$ 15,989
Accruals	14,021	12,955
Asset valuation reserves	14,301	8,622
Net operating loss carryforward	8,448	8,827
Intangible assets	8,994	8,423
Deferred revenue and expenses	3,735	
Other, net	8,882	5,218
	71,388	60,034
Less: valuation allowance	(904)	(957)
Total deferred tax assets	70,484	59,077
Deferred tax liabilities:		
Tax over book depreciation	(28,213)	(29,491)
Tax over book goodwill amortization	(43,737)	(28,658)
Contingent debt interest	(19,353)	
Other, net	(3,348)	(4,032)
Total deferred tax liabilities	(94,651)	(62,181)
Net deferred tax liabilities	$ (24,167)	$ (3,104)

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. In making an assessment regarding the probability of realizing a benefit from these deductible differences, management considers the company s current and past performance, the market environment in which the company operates, tax planning strategies and the length of carryforward periods.

During 2006, the valuation allowance decreased by $53,000 due to the fact that state net operating loss carryforwards, that were previously expected to expire, became realizable.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Income tax expense (benefit) consists of the following:

	Year Ended December 31,		
(in thousands)	2006	2005	2004
Current:			
Federal	$ 16,458	$ 46,030	$ 35,245
State	2,490	(719)	8,254
	18,948	45,311	43,499
Deferred:			
Federal	21,298	(5,605)	25,088
State	3,011	723	(4,290)
	24,309	(4,882)	20,798
	$ 43,257	$ 40,429	$ 64,297

Differences between Apria s income tax expense and an amount calculated utilizing the federal statutory rate are as follows:

	Year Ended December 31,		
(in thousands)	2006	2005	2004
Income tax expense at statutory rate	$ 41,382	$ 37,580	$ 62,407
Non-deductible expenses	711	2,958	465
State taxes, net of federal benefit and state loss carryforwards	5,134	4,592	7,071
Change in valuation allowance	(53)	(2,218)	(6,803)
Change in contingency reserve	(4,063)	(2,483)	959
Other	146		198
	$ 43,257	$ 40,429	$ 64,297

Net income taxes paid in 2006, 2005 and 2004 amounted to $16,406,000, $52,099,000 and $35,564,000, respectively.

The company believes it has adequately provided for income tax issues not yet resolved with federal, state and local tax authorities. At December 31, 2006, $12,195,000, net of tax benefit, was accrued for such federal, state and local tax matters and is included in income taxes payable. Although not probable, the most adverse resolution of these federal, state and local issues could result in additional charges to earnings in future periods in addition to the $12,195,000 currently provided. Based upon a consideration of all relevant facts and circumstances, the company does not believe the ultimate resolution of tax issues for all open tax periods will have a materially adverse effect upon its results of operations or financial condition.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 PER SHARE AMOUNTS

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

	Year Ended December 31,		
(in thousands, except per share data)	**2006**	**2005**	**2004**
Numerator:			
Net income	$ 74,980	$ 66,941	$ 114,008
Numerator for basic and diluted per share amounts income available to common stockholders	$ 74,980	$ 66,941	$ 114,008
Denominator:			
Denominator for basic per share amounts weighted-average shares	42,462	48,154	49,368
Effect of dilutive securities:			
Employee stock options dilutive potential common shares	473	831	812
Denominator for diluted per share amounts adjusted weighted-average shares	42,935	48,985	50,180
Basic net income per common share	$ 1.77	$ 1.39	$ 2.31
Diluted net income per common share	$ 1.75	$ 1.37	$ 2.27
Employee stock options excluded from the computation of diluted per share amounts:			
Shares for which exercise price exceeds average market price of common stock	3,145	2,073	1,505
Average exercise price per share that exceeds average market price of common stock	$ 26.71	$ 30.21	$ 31.66

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 10 LEASES

Apria leases all of its facilities. Lease terms are generally ten years or less with renewal options for additional periods. The company occasionally subleases unused facility space when a lease buyout is not a viable option. Sublease income is recognized monthly and is offset against facility lease expense. Sublease income in 2006, 2005 and 2004 amounted to $1,046,000, $988,000 and $1,012,000, respectively. In addition, delivery vehicles and office equipment are leased under operating leases. Many leases provide that the company pay taxes, maintenance, insurance and other expenses. Rentals are generally increased annually by the Consumer Price Index, subject to certain maximum amounts defined within individual agreements. Net rent expense in 2006, 2005 and 2004 amounted to $73,293,000, $74,835,000 and $72,330,000, respectively.

During 2004, Apria acquired information systems hardware and software totaling $3,156,000 under capital lease arrangements with lease terms ranging from 24 to 36 months. Related amortization amounted to $796,000, $709,000 and $229,000 in 2006, 2005 and 2004, respectively. There were no purchases of assets under capital lease arrangements during 2006 and 2005.

The following amounts for assets under capital lease obligations are included in property, equipment and improvements:

	December 31,	
(in thousands)	**2006**	**2005**
Information systems hardware and software	$ 3,156	$ 3,156
Less accumulated depreciation	(1,734)	(938)
	$ 1,422	$ 2,218

Future minimum payments, by year and in the aggregate, required under noncancelable operating leases consist of the following at December 31, 2006:

(in thousands)	
2007	$ 56,819
2008	46,841
2009	35,886
2010	26,145
2011	18,056
Thereafter	21,684
	$ 205,431

NOTE 11 EMPLOYEE BENEFIT PLANS

401(k) Savings Plan: Apria has a 401(k) defined contribution plan, whereby eligible employees may contribute up to 35% of their annual base earnings. During the two years ended 2005, the company matched 50% of the first 8% of employee contributions. Total expenses related to the defined contribution plan were $4,970,000 and $4,588,000 in 2005 and 2004, respectively. In 2006 the company suspended the employer match contribution.

Pension Plan: Apria contributes to a union pension fund in the State of New York, for which an unfunded liability of $685,000 and $706,000 was accrued at December 31, 2006 and 2005, respectively. This liability is classified in other non-current liabilities.

Deferred Compensation Plan: Apria has a non-qualified deferred compensation plan that is available for approximately 250 employees and members of the Board of Directors. The plan provides participants with the advantages of pre-tax contributions and tax deferred compounding of interest. Plan assets, which represent the fair market value of the investments, were $4,966,000 and $4,645,000, and plan liabilities were $4,128,000 and $3,947,000 at December 31, 2006 and 2005, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 12 COMMITMENTS AND CONTINGENCIES

Litigation: Apria is the defendant in a California class action lawsuit containing blanket claims of liability under various California employee protection statutes and regulations relating to payment of regular and overtime wages, the timeliness of such payments, the maintenance and provision of access to required payroll records, and the provision of meal and rest periods. *Venegas vs. Apria Healthcare, Inc.*, *et al.*, was filed on February 21, 2006 in the California Superior Court for the County of San Francisco (Case No. CGC 06 449669). No class has been certified at this time, but on behalf of a purported class consisting of certain hourly employees of the company in the State of California, the complaint seeks compensatory and punitive damages in an unspecified amount as well as other relief. The company has filed an answer to the complaint denying all material allegations and asserting a number of affirmative defenses. Based on the company s preliminary investigation of the allegations, management believes there are meritorious defenses to the claims and the company intends to vigorously defend the lawsuit. No assurance can be given, however, that the ultimate disposition of this case will not have a material adverse effect on the company s financial condition or results of operations.

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

Qui Tam Settlement and Related Costs: As previously reported, Apria was the subject of an investigation launched in mid-1998 by the U.S. Attorney s office in Los Angeles and the U.S. Department of Health and Human Services. The investigation concerned the documentation supporting Apria s billing for services provided to patients whose healthcare costs were paid by Medicare and other federal programs. The investigation related to two civil *qui tam* lawsuits against Apria filed by individuals suing on behalf of the government. Apria and representatives of the government and the individual plaintiffs reached a preliminary agreement in early August 2005 to settle these lawsuits for the aggregate sum of $17,600,000, without any admission of wrongdoing by Apria. The settlement was finalized in a definitive agreement that was fully executed and became effective on September 30, 2005, and Apria paid the settlement amount on that date. Apria also incurred $1,658,000 in legal fees and other related costs during 2005.

Medicare Reimbursement: There are a number of provisions contained within recent legislation or proposed legislation that affect or may affect Medicare reimbursement polices for items and services provided by Apria. The company cannot be certain of the ultimate impact of all legislated and contemplated changes, and therefore, cannot provide assurance that these changes will not have a material adverse effect on Apria s results of operations.

Supplier Concentration: Apria currently purchases approximately 59% of its patient service equipment and supplies from four 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 in revenue, which could adversely affect operating results.

Guarantees and Indemnities: From time to time Apria 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 or 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 company s balance sheets for any of the periods presented.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 13 SERVICE/PRODUCT LINE DATA

The following table sets forth a summary of net revenues and gross profit by service line:

	Year Ended December 31,		
(in thousands)	2006	2005	2004
Net revenues:			
Respiratory therapy	$ 1,033,267	$ 1,009,752	$ 990,857
Infusion therapy	274,723	256,225	246,662
Home medical equipment/other	209,317	208,124	213,930
Total net revenues	$ 1,517,307	$ 1,474,101	$ 1,451,449
Gross profit:			
Respiratory therapy	$ 737,476	$ 746,486	$ 774,149
Infusion therapy	146,121	131,128	129,482
Home medical equipment/other	112,271	117,199	130,374
Total gross profit	$ 995,868	$ 994,813	$ 1,034,005

Net revenues for 2006 reflect Medicare reimbursement reductions of $15.0 million on respiratory drugs and dispensing fees plus oxygen and oxygen related equipment. Net revenues for 2005 reflect Medicare reimbursement reductions of $27.4 million on respiratory medications, certain durable medical equipment items and oxygen and oxygen-related equipment. Respiratory therapy revenues for 2004 reflect Medicare reimbursement reductions of $15.2 million on respiratory medications.

Respiratory therapy and total gross profit for 2004 are not comparable to the other years presented. For 2006 and 2005, certain respiratory therapy costs were reclassified from selling, distribution and administrative expense to cost of net revenues, however, the corresponding reclassification was not made for 2004. See Note 1 Respiratory Therapy Expenses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 14 SELECTED QUARTERLY FINANCIAL DATA (unaudited)

	Quarter			
(in thousands, except per share data)	First	Second	Third	Fourth
2006				
Net revenues	$ 368,056	$ 376,079	$ 382,214	$ 390,958
Gross profit	241,082	247,109	251,120	256,557
Operating income	31,944	37,355	38,209	40,192
Net income	16,123	18,458	19,306	21,093
Basic net income per common share	$ 0.38	$ 0.44	$ 0.45	$ 0.50
Diluted net income per common share	$ 0.38	$ 0.43	$ 0.45	$ 0.49
2005				
Net revenues	$ 371,863	$ 374,931	$ 367,615	$ 359,692
Gross profit	252,092	255,348	248,922	238,451
Operating income	40,768	21,589	33,360	33,772
Net income	25,170	3,016	19,255	19,500
Basic net income per common share	$ 0.52	$ 0.06	$ 0.39	$ 0.42
Diluted net income per common share	$ 0.51	$ 0.06	$ 0.38	$ 0.42

Net income for the second quarter of 2005 was impacted by the initial accrual of $20,000,000 for the settlement costs and legal fees associated with the federal investigation and *qui tam* lawsuits. The initial accrual recorded was subsequently adjusted to $19,258,000 in the fourth quarter. See Note 12 Commitments and Contingencies.

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APRIA HEALTHCARE GROUP INC.
SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

(in thousands)	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
Year ended December 31, 2006				
Deducted from asset accounts:				
Allowance for doubtful accounts	$41,527	$38,723	$52,926	$27,324
Reserve for inventory and patient service equipment shortages	$ 3,753	$ 3,623	$ 2,956	$ 4,420
Year ended December 31, 2005				
Deducted from asset accounts:				
Allowance for doubtful accounts	$45,064	$46,948	$50,485	$41,527
Reserve for inventory and patient service equipment shortages	$ 3,230	$ 2,309	$ 1,786	$ 3,753
Year ended December 31, 2004				
Deducted from asset accounts:				
Allowance for doubtful accounts	$38,531	$48,567	$42,034	$45,064
Reserve for inventory and patient service equipment shortages	$ 1,377	$ 3,909	$ 2,056	$ 3,230

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 1, 2007

APRIA HEALTHCARE GROUP INC.

By: /s/ LAWRENCE M. HIGBY
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ LAWRENCE M. HIGBY		
Lawrence M. Higby	Chief Executive Officer and Director (Principal Executive Officer)	March 1, 2007
/s/ CHRIS A. KARKENNY		
Chris A. Karkenny	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 1, 2007
/s/ ALICIA PRICE		
Alicia Price	Vice President and Controller (Principal Accounting Officer)	March 1, 2007
/s/ DAVID L. GOLDSMITH		
David L. Goldsmith	Director and Chairman of the Board	March 1, 2007
/s/ VICENTE ANIDO, JR.		
Vicente Anido, Jr.	Director	March 1, 2007
/s/ TERRY BAYER		
Terry Bayer	Director	March 1, 2007
/s/ I. T. CORLEY		
I. T. Corley	Director	March 1, 2007

/s/ RICHARD H. KOPPES		
Richard H. Koppes	Director	March 1, 2007
/s/ PHILIP R. LOCHNER, JR.		
Philip R. Lochner, Jr.	Director	March 1, 2007
/s/ NORMAN C. PAYSON		
Norman C. Payson	Director	March 1, 2007
/s/ MAHVASH YAZDI		
Mahvash Yazdi	Director	March 1, 2007

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EXHIBIT INDEX

Exhibit No.	Description	Reference
3.1	Restated Certificate of Incorporation of Registrant.	(c)
3.2	Certificate of Ownership and Merger merging Registrant into Abbey and amending Abbey s Restated Certificate of Incorporation to change Abbey s name to Apria Healthcare Group Inc.	(f)
3.3	Certificate of Amendment of Certificate of Incorporation of Registrant.	(m)
3.4	Amended and Restated Bylaws of Registrant, as amended on March 1, 2006.	(q)
4.1	Specimen Stock Certificate of the Registrant.	(f)
4.2	Certificate of Designation of the Registrant.	(c)
4.3	Indenture dated August 20, 2003, between Registrant and U.S. Bank National Association, as trustee, describing the Registrant s issuance of $3^3/8$% Convertible Senior Notes due 2033.	(i)
4.4	First Supplemental Indenture dated December 14, 2004, supplementing and amending the indenture dated August 20, 2003.	(m)
10.1 #	1991 Stock Option Plan.	(a)
10.2 #	401(k) Savings Plan, restated effective October 1, 1993, amended December 28, 1994.	(d)
10.3 #	Amended and Restated 1992 Stock Incentive Plan.	(d)
10.4 #	Amendment 1996-1 to the 1991 Stock Option Plan, dated October 28, 1996.	(m)
10.5 #	Amendment 1996-1 to the Amended and Restated 1992 Stock Incentive Plan, dated October 28, 1996.	(m)
10.6 #	Amended and Restated 1997 Stock Incentive Plan, dated February 27, 1997, as amended through June 30, 1998.	(m)
10.7 #	1998 Nonqualified Stock Incentive Plan, dated December 15, 1998.	(m)
10.8 #	Amendment No. 1 to the 1998 Nonqualified Stock Incentive Plan, dated January 31, 2001.	(e)
10.9	International Swaps and Derivatives Association, Inc. Master Agreement dated December 3, 2002, between Registrant and Bank of Nova Scotia.	(g)

10.10 #	Apria Healthcare Group Inc. 2003 Performance Incentive Plan, dated July 17, 2003.	(h)
10.11 #	Form of Director Stock Option Agreement as granted under the Registrant s 2003 Performance Incentive Plan.	(p)
10.12 #	Form of Director Restricted Stock Award Agreement as granted under the Registrant s 2003 Performance Incentive Plan.	(p)

Exhibit No.	Description	Reference
10.13 #	Form of Employee Stock Option Agreement as granted under the Registrant s 2003 Performance Incentive Plan.	(p)
10.14 #	Form of Employee Restricted Stock Purchase Rights Award Agreement as granted under the Registrant s 2003 Performance Incentive Plan.	(p)
10.15 #	Form of Employee Time-Based Restricted Stock Award Agreement as granted under the Registrant s 2003 Performance Incentive Plan.	(p)
10.16 #	Form of Employee Performance-Based Restricted Stock Award Agreement as granted under the Registrant s 2003 Performance Incentive Plan.	(p)
10.17	Fourth Amended and Restated Credit Agreement dated November 23, 2004, among Registrant and certain of its subsidiaries, Bank of America, N.A., The Bank of Nova Scotia and certain other lending institutions.	(l)
10.18	Confirmation dated April 22, 2005, executed relative to the Master Agreement dated December 3, 2002, between Registrant and Bank of Nova Scotia.	(n)
10.19 #	Executive Severance Agreement dated June 13, 2005, between Registrant and Jeri L. Lose.	(n)
10.20 #	Amended and Restated Employment Agreement dated October 20, 2005, between Registrant and Lawrence A. Mastrovich.	(o)
10.21	Letter Agreement with respect to the Accelerated Share Repurchase transaction dated November 7, 2005, between Registrant and Citibank, N.A., acting through Citigroup Global Markets, Inc., as agent.	(o)
10.22	Form of Indemnity Agreement for Non-Employee Directors.	(r)
10.23 #	Executive Severance Agreement dated March 14, 2006, between Registrant and W. Jeffrey Ingram.	(p)
10.24	First Amendment to Fourth Amended and Restated Credit Agreement, dated June 23, 2006.	(s)
10.25 #	Employment Agreement and Non-Competition Agreement between registrant and Chris A. Karkenny, as Executive Vice President and Chief Financial Officer effective November 13, 2006.	(t)
14.1	Registrant s Code of Ethical Business Conduct.	(j)
21.1	List of Subsidiaries.	

23.1	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a).
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a).
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C Section 1350.

\# *Management contract or compensatory plan or arrangement.*

Exhibit No.	Description	Reference

References Documents filed with the Securities and Exchange Commission

(a)	Incorporated by reference to Registration Statement on Form S-1 (Registration No. 33-44690), as filed on December 23, 1991.
(b)	Incorporated by reference to Registration Statement on Form S-4 (Registration No. 33-69094), as filed on September 17, 1993.
(c)	Incorporated by reference to Registration Statement on Form S-4 (Registration No. 33-90658), and its appendices, as filed on March 27, 1995.
(d)	Incorporated by reference to Registration Statement on Form S-8 (Registration No. 33-80581), as filed on December 19, 1995.
(e)	Incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 2000, as filed on March 22, 2001.
(f)	Incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 2001, as filed on April 1, 2002.
(g)	Incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 2002, as filed on March 31, 2003.
(h)	Incorporated by reference to Quarterly Report on Form 10-Q dated June 30, 2003, as filed on August 12, 2003.
(i)	Incorporated by reference to Quarterly Report on Form 10-Q dated September 30, 2003, as filed on November 14, 2003.
(j)	Incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 2003.
(k)	Incorporated by reference to Quarterly Report on Form 10-Q dated June 30, 2004, as filed on August 6, 2004.
(l)	Incorporated by reference to Current Report on Form 8-K dated November 23, 2004, as filed on November 30, 2004.
(m)	Incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 2004, as filed on March 15, 2004.
(n)	Incorporated by reference to Quarterly Report on Form 10-Q dated June 30, 2005, as filed on August 15, 2005.
(o)	

Incorporated by reference to Quarterly Report on Form 10-Q dated September 30, 2005, as filed on November 9, 2005.

(p) Incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 2005, as filed on March 16, 2006.

(q) Incorporated by reference to Current Report on Form 8-K dated March 1, 2006, as filed on March 7, 2006.

(r) Incorporated by reference to Current Report on Form 8-K dated March 8, 2006, as filed on March 14, 2006.

(s) Incorporated by reference to Quarterly Report on Form 10-Q dated June 30, 2006, as filed on August 9, 2006.

(t) Incorporated by reference to Current Report on Form 8-K dated November 2, 2006, as filed on November 6, 2006