MATRIA HEALTHCARE INC
Form 10-Q
May 06, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED March 31, 2008

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ______ TO _____

Commission file number 0-20619

MATRIA HEALTHCARE, INC.
(Exact name of registrant as specified in its charter)

Delaware	20-2091331
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1850 Parkway Place Marietta, Georgia 30067	(770) 767-4500
(Address of principal executive offices) (Zip Code)	(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined by Rule 12b-2 of the Exchange Act).
Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

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

The number of shares outstanding of the issuer's only class of common stock, $.01 par value, as of May 1, 2008, was 21,526,924.

MATRIA HEALTHCARE, INC.
QUARTERLY REPORT ON FORM 10-Q
MARCH 31, 2008

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Matria Healthcare, Inc. and Subsidiaries
Consolidated Condensed Balance Sheets
(Amounts in thousands, except per share amounts)
(Unaudited)]

ASSETS	March 31, 2008	December 31, 2007
Current assets:		
Cash and cash equivalents	$ 23,070	$ 19,501
Trade accounts receivable, less allowances of $3,603 and		
$4,559 at March 31, 2008 and December 31, 2007, respectively	46,591	45,968
Prepaid expenses and other current assets	10,803	11,479
Deferred income taxes	15,308	15,308
Total current assets	95,772	92,256
Property and equipment, net	40,027	40,013
Goodwill, net	494,895	494,718
Other intangibles, net	46,960	48,746
Other assets	9,791	10,505
	$ 687,445	$ 686,238
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, principally trade	$ 8,882	$ 8,365
Current installments of long-term debt	43,475	43,988
Unearned revenues	11,331	10,097
Accrued liabilities	17,499	19,584
Total current liabilities	81,187	82,034
Long-term debt, excluding current installments	242,828	238,688
Deferred income taxes	5,115	7,257
Other long-term liabilities	6,682	7,019
Total liabilities	335,812	334,998
Shareholders' equity:		
Preferred stock, $.01 par value. Authorized 50,000 shares;		
none outstanding at March 31, 2008 and December 31, 2007	-	-
Common stock, $.01 par value. Authorized 50,000 shares;		
issued and outstanding 21,498 and 21,420 at March 31, 2008		
and December 31, 2007, respectively	215	214
Additional paid-in capital	433,390	430,531
Accumulated deficit	(76,133)	(76,389)
Accumulated other comprehensive earnings	(5,839)	(3,116)
Total shareholders' equity	351,633	351,240

	$	687,445	$	686,238

See accompanying notes to consolidated condensed financial statements.

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Matria Healthcare, Inc. and Subsidiaries
Consolidated Condensed Statements of Operations
(Amounts in thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Revenues	$ 79,512	$ 86,024
Cost of revenues	25,593	26,493
Selling and administrative expenses	45,516	43,164
Provision for doubtful accounts	941	1,219
Amortization of intangible assets	1,786	1,786
Total costs and operating expenses	73,836	72,662
Operating earnings from continuing operations	5,676	13,362
Interest income	260	378
Interest expense	(5,615)	(5,648)
Other income, net	65	323
Earnings from continuing operations before income taxes	386	8,415
Income tax expense	(162)	(3,454)
Earnings from continuing operations	224	4,961
Earnings (loss) from discontinued operations	32	(154)
Net earnings	$ 256	$ 4,807
Net earnings per common share:		
Basic:		
Continuing operations	$ 0.01	$ 0.23
Discontinued operations	-	-
	$ 0.01	$ 0.23
Diluted:		
Continuing operations	$ 0.01	$ 0.23
Discontinued operations	-	(0.01)
	$ 0.01	$ 0.22
Weighted average shares outstanding:		
Basic	21,466	21,307
Diluted	21,968	21,828

See accompanying notes to consolidated condensed financial statements.

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Matria Healthcare, Inc. and Subsidiaries
Consolidated Condensed Statements of Cash Flows
(Amounts in thousands)
(Unaudited)

	Three Months Ended March 31, 2008	2007
Cash Flows from Operating Activities:		
Net earnings	$ 256	$ 4,807
Less earnings (loss) from discontinued operations, net of income taxes	32	(154)
Earnings from continuing operations	224	4,961
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities:		
Depreciation and amortization (including debt discount and expenses)	5,387	5,191
Provision for doubtful accounts	941	1,219
Deferred income taxes	79	1,547
Share-based compensation	1,839	2,709
Excess tax benefit - share-based compensation	-	(118)
Other	12	-
Changes in assets and liabilities:		
Trade accounts receivable	(1,564)	(3,234)
Prepaid expenses and other current assets	676	(690)
Noncurrent assets	(91)	(136)
Accounts payable	517	(4,863)
Accrued and other liabilities	(744)	(362)
Net cash provided by continuing operations	7,276	6,224
Net cash provided by (used in) discontinued operations	55	(519)
Net cash provided by operating activities	7,331	5,705
Cash Flows from Investing Activities:		
Purchases of property and equipment	(3,443)	(3,105)
Increase in restricted cash	-	(16)
Net cash used in investing activities	(3,443)	(3,121)
Cash Flows from Financing Activities:		
Principal repayments of debt	(1,339)	(1,383)
Proceeds from issuance of common stock	1,020	960
Excess tax benefit - share-based compensation	-	118
Net cash used in financing activities	(319)	(305)
Net increase in cash and cash equivalents	3,569	2,279
Cash and cash equivalents at beginning of year	19,501	19,839
Cash and cash equivalents at end of period	$ 23,070	$ 22,118
Supplemental disclosure of cash paid for:		
Interest	$ 5,225	$ 5,127
Income taxes	$ 206	$ 70

See accompanying notes to consolidated condensed financial statements.

Notes to Consolidated Condensed Financial Statements
(Unaudited)

1. General

The consolidated condensed financial statements as of March 31, 2008, and for the three-month periods ended March 31, 2008 and 2007, respectively, are unaudited. The consolidated condensed balance sheet as of December 31, 2007, was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. In preparing financial statements, it is necessary for management to make assumptions and estimates affecting the amounts reported in the consolidated financial statements and related notes. These estimates and assumptions are developed based upon all information available. Actual results could differ from estimated amounts. In the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for fair presentation of the consolidated condensed financial position and results of operations for the periods presented have been included. The results for the three months ended March 31, 2008, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2008.

The consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2007. References herein to "we," "us," "our," the "Company," and "Matria" refer to Matria Healthcare, Inc. and its consolidat subsidiaries.

2. Recently Issued and Recently Adopted Accounting Standards

Fair Value Measurements. We adopted Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements ("SFAS 157"), as of January 1, 2008. SFAS 157 defines fair value, establishes a methodology for measuring fair value, and expands the required disclosure for fair value measurements. On February 12, 2008, the FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157, which amends SFAS 157 by delaying its effective date by one year for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Therefore, the adoption of SFAS 157 on January 1, 2008, is limited to financial assets and liabilities. The initial adoption did not have a material impact on our financial position or results of operations. However, we are still in the process of evaluating this standard with respect to its effect on non-financial assets and liabilities, and we have not yet determined the impact that it will have on our financial statements upon full adoption on January 1, 2009. See Note 11 for additional information.

Fair Value Option. In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115 ("SFAS 159"). This standard permits entities to choose to measure many financial instruments and certain other items at fair value. Entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis with a few exceptions. SFAS 159 also establishes presentation and disclosure requirements to facilitate comparisons between companies that choose different measurement attributes for similar assets and liabilities. We adopted SFAS 159 on January 1, 2008, and did not elect the fair value measurement for any of our financial assets or liabilities.

Disclosures about Derivative Instruments. In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133 ("SFAS 161"). SFAS 161 requires enhanced disclosure related to derivatives and hedging activities and thereby seeks to improve the transparency of financial reporting. Under SFAS 161, entities are required to provide enhanced disclosures relating to: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedge items are accounted for under SFAS 133, Accounting for Derivative Instruments and Hedging Activities (“SFAS 133”), and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 must be applied prospectively to all derivative instruments and non-derivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS 133 and will be effective for all financial statements January 1, 2009. We are currently evaluating the impact on the disclosures for our derivative instruments and hedging activities.

3. Plan of Merger

On January 27, 2008, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Inverness Medical Innovations, Inc. ("Inverness"), pursuant to which Inverness will acquire Matria. Inverness is a global leader in rapid point-of-care diagnostics and the development of near-patient diagnosis, monitoring and health management, including disease management and wellness programs that enables individuals to take charge of improving their health and quality of life.

At the effective time of the merger, by virtue of the merger and without any action on the part of the holders of any capital stock of Matria, each share of common stock of Matria issued and outstanding immediately prior to the effective time will be converted into the right to receive: (i) a portion of a share of Inverness convertible preferred stock having a stated value of $32.50 (the $400 liquidation value of a share of Inverness convertible preferred stock multiplied by 0.08125, which is the exchange ratio of the issuance of Inverness convertible preferred stock in the merger), and (ii) $6.50 in cash. The merger has been approved by the Boards of Directors of both companies. The completion of the merger is subject to obtaining the approval of Matria shareholders at a meeting scheduled on May 8, 2008. Matria and Inverness will continue to operate separately until the transaction closes. Inverness has filed a registration statement on Form S-4 with the SEC in connection with the proposed merger, which includes additional information related to the proposed merger and Matria's proxy statement and Inverness's prospectus for the proposed transaction.

4. Acquisition Contingent Consideration

In connection with our acquisition of Miavita LLC ("Miavita") on April 1, 2005, we were required to pay additional consideration in future periods, based upon a percentage of specified revenues pertaining to certain customer agreements. For the third earn-out period ended March 31, 2008, we accrued $177,000, payable on May 15, 2008, for additional acquisition consideration and recorded the amount as a decrease to goodwill. Additional consideration payments will be payable in future periods through 2010, which we estimate to be less than $250,000.

5. Comprehensive Earnings (Loss)

Comprehensive earnings generally include all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive earnings consist of net earnings and net unrealized gains and losses on derivative instruments. Comprehensive earnings (loss) for the three-months ended March 31, 2008 and 2007, were $(2.5) million and $4.7 million, respectively.

6. Income Taxes

We adopted Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") on January 1, 2007. As a result of implementing FIN 48, we derecognized $524,000 in income tax benefits for certain tax positions for which there is uncertainty and recognized $145,000 of related interest and penalties. These adjustments resulted in increases of $669,000 to beginning Accumulated deficit and to Other long-term liabilities. As of March 31, 2008 and December 31, 2007, we had a liability of $971,000 for tax benefits recognized which may not be sustained. We recognize interest and penalties related to unrecognized tax benefits in Interest expense and Selling and administrative expenses, respectively on the consolidated condensed statement of operations. At March 31, 2008 and December 31, 2007, we accrued $288,000 and $213,000, respectively, for the payment of interest and

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penalties. These amounts are included in Other long-term liabilities on the consolidated condensed balance sheets.

7. Earnings Per Share

The computations for basic and diluted net earnings per common share are as follows (in thousands, except per share amounts):

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Net earnings (loss) - basic and diluted:		
Continuing operations	$ 224	$ 4,961
Discontinued operations	32	(154)
Net earnings available to common shareholders	$ 256	