

MATRIA HEALTHCARE INC
Form 10-Q/A
March 20, 2007

**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**Form 10-Q/A
(Amendment No. 1)**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED **September 30, 2006**

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

(State or other jurisdiction of
incorporation or organization)

20-2091331

(I.R.S. Employer
Identification No.)

1850 Parkway Place

Marietta, Georgia 30067

(Address of principal executive
offices)(Zip Code)

(770) 767-4500

(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 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 Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of the issuer's only class of common stock, \$.01 par value, as of November 1, 2006, was 21,442,346.

EXPLANATORY NOTE

Matria Healthcare, Inc. (the "Company") is filing this Amendment No. 1 on Form 10-Q/A (this "Amendment") to its Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, which was originally filed with the Securities and Exchange Commission (the "SEC") on November 8, 2006 (the "Original Filing"), to amend and restate the Company's consolidated financial statements (the "Restatement") for the three and nine months ended September 30, 2006. The Company is amending and restating its consolidated financial statements to record income tax expense adjustments related to the quarterly period ended September 30, 2006. In addition, the Company is restating its consolidated financial statements to record adjustments to its Accrued liabilities and Goodwill as of September 30, 2006.

In 1999, the Company acquired substantially all of the assets of Gainor Medical Management, LLC ("Gainor"), including its wholly owned subsidiary Facet Technologies, LLC ("Facet"). In connection with the purchase of Gainor, the Company incorrectly calculated the purchase price allocation made for tax purposes in 1999. As a result, when the Company disposed of Facet in September 2006, it incorrectly calculated the after-tax gain on the disposition of Facet because the original purchase price allocation made in 1999 was incorrect. For the three months and nine months ended September 30, 2006, the Company's income tax expense on the gain on disposal of Facet was overstated by approximately \$7.3 million. Accordingly, the effects of the adjustments on the Company's financial statements for the three and nine months ended September 30, 2006 are an increase of \$5.5 million to the long-term portion of deferred tax assets, a decrease of \$1.8 million to income taxes payable, and a corresponding decrease of \$7.3 million in income tax expense, which results in an increase to gain on disposal of Facet, net of income taxes, and an increase in diluted earnings per share from discontinued operations of \$7.3 million and \$0.34, respectively, for the three and nine months ended September 30, 2006. These adjustments do not affect the Company's earnings from continuing operations for these periods as previously reported.

In addition, the Company recorded adjustments to eliminate the contingent consideration liability, included in Accrued liabilities on the consolidated condensed balance sheet, for the acquisition of WinningHabits, Inc. ("WinningHabits") as the contingency was not resolved and additional consideration was not issuable as of September 30, 2006. The effects of the adjustments on the Company's consolidated balance sheet as of September 30, 2006, were decreases in Goodwill and Accrued liabilities of \$23.3 million.

For the convenience of the reader, this Amendment sets forth the Original Filing in its entirety. However, this Amendment amends and restates Items 1, 2 and 4 of Part I, in each case as a result of, and to reflect, the Restatement and related matters. For a description of the Restatement, see Note 2, "Restatement of Financial Statements," to the accompanying interim consolidated financial statements contained in this Amendment. In addition, Exhibits 31.1, 31.2, 32.1 and 32.2 of the Original Filing have been amended to contain currently dated certifications from the Company's Chief Executive Officer and Chief Financial Officer. No other information in the Original Filing is amended hereby. The foregoing items have not been updated to reflect other events occurring after the filing of the Original Filing or to modify or update those disclosures affected by subsequent events. Except for the amended information related to the Restatement, the information in this Amendment is as of the date of the Original Filing and the Company has not updated the disclosure contained herein to reflect events that occurred as of a later date.

MATRIA HEALTHCARE, INC.
QUARTERLY REPORT ON FORM 10-Q/A
SEPTEMBER 30, 2006

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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)

	September 30,	December 31,
	2006	2005
	(as restated)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 28,178	\$ 22,758
Restricted cash	1,344	550
Trade accounts receivable, less allowances of \$4,086 and \$3,886 at September 30, 2006 and December 31, 2005, respectively	55,888	33,996
Assets held for sale	30,322	132,455
Prepaid expenses and other current assets	8,631	6,588
Deferred income taxes	10,447	8,629
Total current assets	134,810	204,976
Property and equipment, net	37,851	26,430
Goodwill, net	465,520	69,248
Other intangibles, net	57,677	6,935
Deferred income taxes	13,739	10,666
Other assets	13,841	4,952
	\$ 723,438	\$ 323,207
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, principally trade	\$ 9,778	\$ 10,702
Current installments of long-term debt	54,313	1,021
Liabilities related to assets held for sale and other discontinued operations	10,980	31,042
Unearned revenues	14,518	7,205
Accrued liabilities	44,566	13,412
Total current liabilities	134,155	63,382
Long-term debt, excluding current installments	277,714	2,099
Other long-term liabilities	7,618	5,788
Total liabilities	419,487	71,269
Shareholders' equity:		
Preferred stock, \$.01 par value. Authorized 50,000 shares; none outstanding at September 30, 2006 and December 31, 2005	-	-
Common stock, \$.01 par value. Authorized 50,000 shares; issued and outstanding 21,311 and 20,832 at September 30, 2006 and December 31, 2005, respectively	211	208
Additional paid-in capital	409,635	400,488

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Accumulated deficit	(106,841)	(149,026)
Accumulated other comprehensive earnings	946	268
Total shareholders' equity	303,951	251,938
	\$ 723,438	\$ 323,207

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		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
	(as restated)		(as restated)	
Revenues	\$ 84,186	\$ 46,266	\$ 247,719	\$ 130,651
Cost of revenues	27,243	19,089	80,104	53,025
Selling and administrative expenses	40,027	23,767	118,845	69,250
Provision for doubtful accounts	1,021	878	2,785	2,621
Amortization of intangible assets	1,786	40	5,358	80
Total costs and operating expenses	70,077	43,774	207,092	124,976
Operating earnings from continuing operations	14,109	2,492	40,627	5,675
Interest income	434	224	1,165	642
Interest expense	(7,136)	(179)	(20,699)	(2,245)
Other income, net	310	156	879	137
Earnings from continuing operations before income taxes	7,717	2,693	21,972	4,209
Income tax expense	(3,185)	(1,091)	(9,190)	(1,705)
Earnings from continuing operations	4,532	1,602	12,782	2,504
Discontinued Operations:				
Earnings from discontinued operations, net of income taxes	1,261	4,835	5,159	12,813
Gain on disposal of discontinued operations, net of income taxes	24,244	-	24,244	-
Earnings from discontinued operations	25,505	4,835	29,403	12,813
Net earnings	\$ 30,037	\$ 6,437	\$ 42,185	\$ 15,317
Net earnings per common share:				
Basic:				
Continuing operations	\$ 0.22	\$ 0.08	\$ 0.61	\$ 0.14
Discontinued operations	1.21	0.23	1.40	0.70
	\$ 1.43	\$ 0.31	\$ 2.01	\$ 0.84
Diluted:				
Continuing operations	\$ 0.21	\$ 0.07	\$ 0.59	\$ 0.13
Discontinued operations	1.18	0.23	1.36	0.67
	\$ 1.39	\$ 0.30	\$ 1.95	\$ 0.80
Weighted average shares outstanding:				

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Basic	21,041	20,632	20,957	18,136
Diluted	21,554	21,728	21,644	19,193

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)

	Nine Months Ended	
	September 30,	
	2006	2005
	(as restated)	
Cash Flows from Operating Activities:		
Net earnings	\$ 42,185	\$ 15,317
Less earnings from discontinued operations, net of income taxes	(29,403)	(12,813)
Earnings from continuing operations	12,782	2,504
Adjustments to reconcile earnings from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization (including debt discount and expenses)	15,670	4,644
Provision for doubtful accounts	2,785	2,621
Deferred income taxes	9,190	5,113
Share based compensation	5,131	-
Imputed interest on acquisition consideration	1,747	-
Other	-	294
Changes in assets and liabilities:		
Trade accounts receivable	(10,472)	(9,415)
Prepaid expenses and other current assets	2,331	(1,214)
Noncurrent assets	(421)	(577)
Accounts payable	(4,348)	(1,179)
Accrued and other liabilities	(23,230)	(5,432)
Net cash provided by (used in) continuing operations	11,165	(2,641)
Net cash provided by (used in) discontinued operations	(3,847)	11,977
Net cash provided by operating activities	7,318	9,336
Cash Flows from Investing Activities:		
Purchases of property and equipment	(8,478)	(6,382)
Purchases of property and equipment related to discontinued operations	(379)	(1,380)
Acquisition of businesses, net of cash received	(434,727)	(4,754)
Proceeds from the sale of business, net of transaction costs	121,598	-
Payment of acquisition obligation	(1,677)	-
Decrease in restricted cash	261	3,273
Net cash used in investing activities	(323,402)	(9,243)
Cash Flows from Financing Activities:		
Proceeds from the issuance of long-term debt, net of transaction costs	443,977	-
Proceeds from the issuance of debt	2,556	2,083
Principal repayments of long-term debt	(129,012)	(1,581)
Proceeds from issuance of common stock	3,479	6,333
Net payment for conversion of 4.875% convertible senior notes and related transaction costs	-	(15,332)
Net cash provided by (used in) financing activities	321,000	(8,497)

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Effect of exchange rate changes on cash and cash equivalents	504	(388)
Net increase (decrease) in cash and cash equivalents	5,420	(8,792)
Cash and cash equivalents at beginning of year	22,758	35,317
Cash and cash equivalents at end of period	\$ 28,178	\$ 26,525
Supplemental disclosure of cash paid for:		
Interest	\$ 23,933	\$ 3,017
Income taxes	\$ 4,665	\$ 3,088
Supplemental disclosure of non-cash transactions:		
Conversion of debt to equity	\$ -	\$ 83,384

See accompanying notes to consolidated condensed financial statements.

Notes to Consolidated Condensed Financial Statements
(Amounts in thousands, except share and per share amounts)
(Unaudited)

1. General

The consolidated condensed financial statements as of September 30, 2006, and for the three-month and nine-month periods ended September 30, 2006 and 2005, respectively, are unaudited. The consolidated condensed balance sheet as of December 31, 2005, 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 financial position and results of operations for the periods presented have been included. The results for the three months and nine months ended September 30, 2006, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2006.

The consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Annual Report on Form 10-K of Matria Healthcare, Inc. ("Matria" or the "Company") for the year ended December 31, 2005. Certain prior year amounts have been reclassified to conform to the current year presentation.

2. Restatement of Financial Statements

In connection with the preparation of its Annual Report on Form 10-K for the year ended December 31, 2006, the Company determined that an error had been made in calculating its income tax expense for the disposition of Facet Technologies, LLC ("Facet") (see note 9). Effective January 1, 1999, the Company acquired substantially all of the assets of Gainor Medical Management, LLC ("Gainor Medical"), which included Facet, for approximately \$147,800. In 1999, the Company had incorrectly calculated the purchase price allocation for tax purposes related to the Gainor Medical acquisition. This resulted in the Company incorrectly determining its income tax expense for the sale of Facet in the third quarter of 2006. For the three months and nine months ended September 30, 2006, the Company's income tax expense on the gain on disposal of Facet was overstated by approximately \$7,300. The Company concluded that there was a material error in its income tax expense for the three and nine months ended September 30, 2006, requiring the restatement of the Company's financial statements for the quarter ended September 30, 2006. The effect of the adjustments on the Company's interim financial statements for the three and nine months ended September 30, 2006, was an increase of \$5,557 to long-term portion of deferred tax assets, a decrease of \$1,762 to income taxes payable, which is included in Accrued liabilities, and a decrease of \$7,319 in income tax expense, which resulted in an increase to the after-tax gain on disposal of discontinued operations and a reduction in the accumulated deficit.

In addition, the Company recorded adjustments to eliminate the contingent consideration liability, included in Accrued liabilities on the consolidated condensed balance sheet, for the acquisition of WinningHabits, Inc. ("WinningHabits") as the contingency was not resolved and additional consideration was not issuable as of September 30, 2006. The effects of the adjustments on the Company's consolidated balance sheet as of September 30, 2006, were decreases in Goodwill and Accrued liabilities of \$23,340.

The following tables summarize the effect of the restatement adjustments on the financial statements as of and for the three and nine months ended September 30, 2006:

Matria Healthcare, Inc. and Subsidiaries
Consolidated Condensed Balance Sheets
(In thousands)

	September 30,		September 30,
	2006	Adjustments	2006
	(as reported)		(as restated)
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 28,178	\$ -	\$ 28,178
Restricted cash	1,344	-	1,344
Trade accounts receivable, less allowances of \$4,086 and \$3,886 at September 30, 2006 and December 31, 2005, respectively	55,888	-	55,888
Assets held for sale	30,322	-	30,322
Prepaid expenses and other current assets	8,631	-	8,631
Deferred income taxes	10,447	-	10,447
Total current assets	134,810	-	134,810
Property and equipment, net	37,851	-	37,851
Goodwill, net	488,860	(23,340)	465,520
Other intangibles, net	57,677	-	57,677
Deferred income taxes	8,182	5,557	13,739
Other assets	13,841	-	13,841
	\$ 741,221	\$ (17,783)	\$ 723,438
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable, principally trade	\$ 9,778	\$ -	\$ 9,778
Current installments of long-term debt	54,313	-	54,313
Liabilities related to assets held for sale and other discontinued operations	10,980	-	10,980
Unearned revenues	14,518	-	14,518
Accrued liabilities	69,668	(25,102)	44,566
Total current liabilities	159,257	(25,102)	134,155
Long-term debt, excluding current installments	277,714	-	277,714
Other long-term liabilities	7,618	-	7,618
Total liabilities	444,589	(25,102)	419,487
Shareholders' equity:			
Preferred stock, \$.01 par value. Authorized 50,000 shares;	-	-	-

none outstanding at September 30, 2006 and
December 31, 2005

Common stock, \$.01 par value. Authorized
50,000 shares;

issued and outstanding 21,311 and 20,832 at
September 30, 2006

and December 31, 2005, respectively

	211	-	211
Additional paid-in capital	409,635	-	409,635
Accumulated deficit	(114,160)	7,319	(106,841)
Accumulated other comprehensive earnings	946	-	946
Total shareholders' equity	296,632	7,319	303,951
	\$ 741,221	\$ (17,783)	\$ 723,438

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

	Three Months ended September 30, 2006	Adjustments	Three Months ended September 30, 2006
	(as reported)		(as restated)
Revenues	\$ 84,186	\$ -	\$ 84,186