MATRIA HEALTHCARE INC
Form 10-K
March 03, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2007

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 No. 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)	(IRS 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

Securities registered pursuant to Section 12(b) of the Act:	Name of each exchange on which registered:
Common Stock, par value $0.01 per share	Nasdaq Global Select Market

(Title of each class)

Securities registered pursuant to Section 12(g) of the Act: None (Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes No X

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ____ Accelerated filer X Non-accelerated filer ____ (Do not check if a smaller reporting company) 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

As of June 30, 2007, the aggregate market value of common stock held by nonaffiliates was approximately $636,381,255, based upon the closing sale price for such date as reported on the Nasdaq Global Select Market. As of February 20, 2008, there were 21,452,348 shares of our common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2008 Annual Meeting of Shareholders are incorporated by reference into Part III.

MATRIA HEALTHCARE, INC.
2007 FORM 10-K ANNUAL REPORT
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PART I

Item 1. Business

General. Matria Healthcare, Inc. (“Matria” or the “Company”) provides comprehensive, integrated programs and services focused on wellness, disease and condition management, productivity enhancement and informatics. This suite of services, which we call “Health Enhancement,” is designed to reduce health-related costs and enhance the health and quality of life of the individuals we serve. Matria provides services to self-insured employers, private and government sponsored health plans, pharmaceutical companies and patients. Our employer clients are primarily Fortune 1000 companies that self-insure the medical benefits provided to their employees, dependents and retirees. Our health plan customers are regional and national health plans, as well as government-sponsored health plans, such as state Medicaid programs.

Our business strategy is described under “Management’s Discussion & Analysis of Financial Condition and Results of Operations” in Item 7 of this Report.

Development of our Business. We were incorporated on December 28, 2004, in connection with our predecessor registrant’s reorganization into a holding company structure. The predecessor registrant was incorporated on October 4, 1995, in connection with the merger of Tokos Medical Corporation and Healthdyne Maternity Management, effective March 8, 1996. Through that merger, Matria emerged as the country’s premier provider of high-risk maternity management services. Subsequently, we decided to leverage the experience with patient assessment, education and patient monitoring we gained through our management of high-risk pregnancies by expanding our focus to include management of individuals with chronic diseases. In furtherance of that strategy, we launched our respiratory disease management program in 1998.

In 1999, we added diabetes disease management to our service offerings through an acquisition. At the same time, we acquired our former pharmacy and supplies business, as well as Facet Technologies, LLC (“Facet”), our diabetes product design, development and assembly business, and our foreign diabetes services business in Germany (“Dia Real”). In 2002, we continued to expand our disease management program offerings through internal development of programs for cardiac disease, depression and chronic pain and through the acquisition of Quality Oncology, Inc. (“Quality Oncology”), the nation’s leading provider of cancer disease management services. In 2003, we launched an initiative to offer disease management services through pharmaceutical companies in support of complex drug therapies and began to offer disease management services for hepatitis C. Through a strategic acquisition in 2004, we expanded our services to include case management. We also divested our domestic pharmacy and supplies business in 2004. In 2005, we furthered our goal of offering the broadest spectrum of services in the industry across the full continuum of care through the acquisitions of Miavita, LLC (“Miavita”), a leading provider of on-line health and wellness programs, and WinningHabits, Inc. (“WinningHabits”), a premier provider of corporate wellness programs. We also launched our commercialized informatics business in 2005, which involves the aggregation and analysis of data to enable our customers to better manage health-related costs and further improve outcomes.

In December 2005, we signed a definitive merger agreement to acquire CorSolutions Medical, Inc. (“CorSolutions”), another leading provider of disease management and related services to employers, health plans and government-sponsored healthcare programs. At the same time, we made the strategic decision to divest Facet and Dia Real. With these strategic initiatives in place, we combined our operations under one reportable segment: Health Enhancement. We completed the acquisition of CorSolutions on January 19, 2006. On September 1, 2006, we completed the sale of Facet. We divested Dia Real on October 17, 2006. In September 2006, we invested in and formed a strategic alliance with privately-held Secured Independence, Inc. to address the needs of the long-term care insurance industry.

Recent Developments. On January 27, 2008, we entered into a definitive merger agreement with Inverness Medical Innovations, Inc. (“Inverness”), pursuant to which Inverness will acquire Matria. 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

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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 various closing conditions, including obtaining the approval of Matria shareholders and filings under the Hart-Scott-Rodino Antitrust Improvements Act and is expected to be completed in the second quarter of 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 Securities and Exchange Commission (the "SEC" or the "Commission") 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.

Our Business Today

Health Enhancement. With the completion of the acquisition of CorSolutions in January 2006, we combined two of the leaders in our industry, and created what we believe is the industry's most expansive health enhancement programs, services and capabilities across the full continuum of care. In the merger with CorSolutions, we acquired an expanded product line, a significant presence in the health plan market, a talented group of employees, new expertise, valuable customer relationships and several new facilities. We expended substantial effort to integrate CorSolutions, Miavita and WinningHabits with our legacy businesses.

Health enhancement involves multiple integrated programs and services that help participants change unhealthy lifestyles that lead to chronic diseases, improve self-care skills and compliance with plans of care and become better educated consumers of healthcare services. Our health enhancement business has 50 service centers that serve participants and patients throughout the United States.

Our on-line, interactive wellness programs address issues such as: smoking cessation, weight loss, exercise, healthier diet, stress relief, healthy aging and productivity enhancement. These programs are designed to help employees and health plan members live healthier and longer lives while reducing their healthcare costs and increasing their productivity.

Our disease and condition management programs focus on the most costly medical conditions, including, without limitation, diabetes, coronary artery disease, congestive heart failure, asthma, chronic obstructive pulmonary disease, depression, chronic pain, hepatitis C, cancer and high-risk pregnancies. With the acquisition of CorSolutions, we expanded our disease management offerings to include many less common chronic conditions. Also, with the acquisition of CorSolutions, we acquired greater expertise in the area of productivity enhancement, including an absence management program and the capability of integrating disease management programs with a customer's disability carriers.

We emphasize a multidisciplinary approach to care that involves our clinicians working with the physicians that are treating the participants in our programs to oversee adherence to evidenced-based standards of care prescribed by the physician. We focus on participants' self-management between visits to their physician, the improvement of participants' compliance with their physicians' care plans and the avoidance of controllable and costly events, such as emergency room visits and hospital admissions. We believe that our programs, which were developed in accordance with national clinical standards, demonstrably reduce medical and healthcare-related costs and produce improved outcomes for our participants. Our disease and condition management services include, but are not limited to:

- Sophisticated data analysis to identify and preliminarily stratify individuals at risk for chronic diseases and high cost conditions;

- Administration of a multi-condition risk assessment, the results of which we use to build a detailed medical profile in our proprietary information systems;

- The use of predictive modeling to determine the probability that a given individual has a chronic condition or is at risk of a significant health event that will result in substantial healthcare costs in the near and longer-term future;
- Development of risk-specific care plans based on national clinical standards;
- Ongoing participant education, motivation and support;
- Monitoring of the participant's utilization of medication and supplies, the frequency of periodic laboratory testing and adherence to care plans;
- For some participants, biometric monitoring of weight, blood glucose, blood pressure and/or uterine activity; and
- Reporting of clinical and financial outcomes.

Our customized educational materials encourage participants to make better lifestyle choices, empower participants through knowledge to make clinically supported decisions about their healthcare and help participants better manage their conditions. The Matria clinicians coach and motivate participants to develop self-care skills to manage their conditions, practice prevention, pursue a health conscious lifestyle, actively seek health and wellness knowledge and understand the financial and health impact of their lifestyle decisions.

People with chronic diseases and high-cost conditions face a myriad of medications, treatments, directives and precautions that are part of a plan of care, and thus, they typically need extra support. Our clinicians ensure this support is readily available and proactively provided. To properly manage one's chronic disease, the individual must follow clinical parameters defined for the disease. Our nurses, with the aid of the Company's technology, educate the participant on the management of these critical parameters. By combining the human touch of experienced clinicians with the power of Matria's technology, the Company's disease and condition management processes have been demonstrated to improve the participant's course of treatment.

All of our programs are built on proprietary, sophisticated and advanced technology that enables us to ingest and analyze data from multiple sources, manage participant care and report clinical and financial outcomes. Increasingly, the market is recognizing the power of data as a tool in managing health care and optimizing clinical and financial outcomes. In 2005, we began to capitalize on our information systems technology and data analysis expertise by offering our informatics services as an adjunct to our wellness and disease and condition management services. We will continue to make substantial investments in our information systems.

Customers and Third-Party Payors. We market our health enhancement services to self-insured employers, health plans (both commercial and governmental), pharmaceutical companies and physicians, through our employee sales force and channel partners. In 2007, revenues from continuing operations were derived from the following types of customers and third-party payors: approximately 54% from health plans, 36% from employers, 7% from government payors and 3% from administrative services only ("ASO") self-insured employer clients.

Billing and Revenue Recognition. Our services are paid for primarily on the basis of (i) monthly fees for each employee or member enrolled in a health plan, (ii) each member identified with a particular chronic disease or condition under contract, (iii) each member enrolled in our programs, (iv) fee-for-service or (v) a fixed rate per

case. Billings for certain services occur in advance of services being performed. Such amounts are recorded as Unearned revenues in the consolidated balance sheets. Such amounts are subsequently recognized as revenue as services are performed.

Some contracts provide that a portion of our fees are at-risk (i.e., refundable) if our programs do not achieve certain financial cost savings and clinical performance criteria. Revenues subject to refund are not recognized if (i) sufficient information is not available to calculate performance measurements; or (ii) interim performance measurements indicate that we are not meeting performance targets. If either of these two conditions exists, we record the amounts as unearned revenue, which is included in Unearned revenues in the consolidated balance sheets. These amounts are recognized as revenue when we establish that we have met the performance criteria. Often, recognition of these revenues occurs in periods subsequent to the recognition of the associated costs. Therefore, upon recognition, these revenues increase our operating profits on a dollar-for-dollar basis. If we do not meet performance criteria, we are contractually obligated to refund some or all of the at-risk fees. Historically, such refunds have been immaterial to our financial condition and results of operations.

Seasonality. Our high-risk pregnancy management services revenues tend to be seasonal. Revenues tend to decrease with the onset of the holiday season starting with Thanksgiving. As a result, first and fourth quarter revenues of each year tend to be lower than second and third quarter revenues. The other aspects of our health enhancement business currently do not reflect any significant degree of seasonality.

Competition. Our health enhancement business is highly competitive. Our competitors and potential competitors include disease management companies, pharmaceutical companies, pharmacy benefit management companies, case management companies, health plans, healthcare providers and other organizations that provide services to health plans and self-insured employers. Certain of our competitors and potential competitors have significantly greater financial and sales resources than we do. We believe that our ability to offer customers an integrated health enhancement solution across a full continuum of care, our demonstrated clinical and financial outcomes capabilities and our highly regarded technology platforms will enable us to compete effectively. However, there can be no assurance that we will not encounter increased or more effective competition in the future, which would limit our ability to maintain or increase our business.

Research and Development. Program development and refinements from the health enhancement operations are a result of the cooperative efforts of the business's information technology, clinical, operating and marketing staff. The costs of these development activities are charged to earnings when incurred. However, we capitalize development costs incurred for internal use software under the provisions of the AICPA Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.

Governmental Regulation. The healthcare business is subject to extensive and frequently changing federal, state and local regulation. Changes in applicable laws or any failure to comply with existing or future laws, regulations or standards could have a material adverse effect on our results of operations, financial condition, business and prospects. We believe our current arrangements and practices are in material compliance with applicable laws and regulations. There can be no assurance that we are in compliance with all applicable existing laws and regulations or that we will be able to comply with new laws or regulations.

Certain of our clinicians, such as nurses, must comply with individual licensing requirements. All of our clinicians who are subject to licensing requirements are licensed in the state in which they are physically present, such as the location of the call center from which they operate. Due to state laws or regulations, some of our nurses are required to be licensed in more than one state. In the future, multiple state licensing requirements for healthcare professionals who provide services telephonically over state lines increasingly may require us to license more of our clinicians in more than one state. New judicial decisions, agency interpretations or federal or state legislation or regulations could increase the requirement for multi-state licensing of a greater number of our clinical staff, which would increase our administrative costs.

Certain aspects of our health enhancement business are subject to unique licensing or permit requirements. For example, many states require our subsidiary providing high-risk pregnancy management services to be licensed as a home health agency or durable medical equipment provider. Also, many states require Quality Oncology, our cancer disease management subsidiary, to be licensed as a utilization review provider. We may also be required to obtain certification to participate in governmental payment programs, such as state Medicaid programs. Some states have established Certificate of Need ("CON") programs regulating the expansion of healthcare operations. The failure to obtain, renew or maintain any of the required licenses, certifications or CONs could adversely affect our business.

Some of the monitoring devices used by our subsidiary providing high-risk pregnancy management services in the provision of our services are classified as medical devices under the Federal Food, Drug and Cosmetic Act, or the FDC Act, and are subject to regulation by the Food and Drug Administration, or the FDA. In addition some of our services involve the use of drugs that are regulated by the FDA under the FDC Act. Although medical devices and drugs used by our subsidiary providing high-risk pregnancy management services are labeled for specific indications and cannot be promoted for any other indications, the FDA allows physicians to prescribe drugs and medical devices for “off-label” indications under the “practice of medicine” doctrine. Negative publicity concerning the off-label use of drugs and devices may adversely affect the high-risk pregnancy management services component of our business. Our failure to comply with FDA requirements could result in FDA enforcement actions, which could include, but are not limited to, recalls, warning letters, fines, injunctions and criminal prosecution. Any such enforcement actions could have a material adverse effect on our business, financial condition and results of operations.

The Health Insurance Portability and Accountability Act of 1996, or HIPAA, governs electronic healthcare transactions and the privacy and security of medical records and other individually identifiable patient data. Additionally, we are subject to various state laws and regulations related to the confidentiality and security of certain personal information. Any failure to comply with HIPAA or relevant state laws and regulations could result in criminal penalties and civil sanctions.

Although a small component of our business relies on reimbursement by government payors, such as state Medicaid, that business is subject to particularly pervasive regulation by those agencies. These regulations impose stringent requirements for provider participation in those programs and for reimbursement of products and services. We are subject to periodic audits or investigation by the Centers for Medicare and Medicaid Services, or CMS, and/or its intermediaries, of our compliance with those requirements, and any deficiencies found may be extrapolated to cover a larger number of reimbursement claims. Additionally, many applicable laws and regulations are aimed at curtailing fraudulent and abusive practices in relation to those programs. These rules include the illegal remuneration provisions of the Social Security Act (sometimes referred to as the “Anti-Kickback” statute), which impose criminal and civil sanctions on persons who knowingly and willfully solicit, offer, receive or pay any remuneration, whether directly or indirectly, in return for, or to induce, the referral of a patient covered by a federal healthcare program to a particular provider of healthcare products or services. Related federal laws make it unlawful, in certain circumstances, for a physician to refer patients covered by federal healthcare programs to a healthcare entity with which the physician and/or the physician's family have a financial relationship. Additionally, a large number of states have laws similar to the federal laws aimed at curtailing fraud and abuse and physician “self-referrals.” These rules have been interpreted broadly such that any financial arrangement between a provider and potential referral source may be suspect. While we believe our business arrangements are in compliance with these laws and regulations, the government could take a contrary position or could investigate our practices.

In addition to the laws described above, the Federal False Claims Act imposes civil liability on individuals or entities that submit false or fraudulent claims for payment to the government. HIPAA created two new federal crimes: “Healthcare Fraud” and “False Statements Relating to Healthcare Matters.” The Healthcare Fraud statute prohibits knowingly and willfully executing a scheme or

artifice to defraud any healthcare benefit program. The False Statements Relating to Healthcare Matters statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact by any trick, scheme or device or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services. The Federal False Claims Act allows actions to be brought on the government's behalf by individuals under the Federal False Claims Act's "qui tam" provision. Violation of these and other applicable rules can result in substantial fines and penalties, required repayment of monies previously recognized as income, as well as exclusion from future participation in government-sponsored healthcare programs.

There can be no assurance that we will not become the subject of a regulatory or other investigation or proceeding or that our interpretations of applicable laws and regulations will not be challenged. The defense of any such challenge could result in adverse publicity, substantial cost to us and diversion of management's time and attention. Thus, any such challenge could have a material adverse effect on our business, regardless of whether it ultimately is sustained.

The Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "Act") provided funding for disease management demonstration programs to be implemented in targeted geographic areas across the country, and indicates that if the programs are successful, the programs will be expanded nationwide. The expansion of these programs could represent a significant opportunity for our disease and condition management business.

Employees. As of December 31, 2007, we employed a total of 1,803 regular full-time and 65 regular part-time employees in our continuing operations. Also, the health enhancement business employed an additional 844 part-time clinical employees to provide, among other things, patient training and back-up support on an "as needed" basis. None of these employees is represented by a union, and we consider our relationship with our employees to be good.

Discontinued Operations. On June 30, 2004, the Company completed the sale of substantially all of the assets, excluding trade and certain other receivables, of our former domestic direct-to-consumer pharmacy and supplies business and discontinued the related lab business. In December 2005, we announced our strategic plan to divest Facet and Dia Real, and we completed the sale of Facet on September 1, 2006, and closed the sale of Dia Real on October 17, 2006. As a result of these divestitures, the accompanying consolidated financial statements reflect the operations of these divisions as discontinued operations for all periods presented.

Available Information.

The Company's Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), will be made available free of charge on or through our website at www.matria.com as soon as reasonably practicable after the reports are filed with, or furnished to, the SEC. Matria's Corporate Governance Guidelines and Code of Conduct were filed as exhibits to previous Exchange Act reports filed with the SEC and are available on our website. Any waivers of the Guidelines or Code will be disclosed in an SEC filing on Form 8-K.

Item 1A. Risk Factors.

Our business is subject to certain risks, including the risks described under the headings "Customers and Third-Party Payors," "Billing and Revenue Recognition," "Seasonality," "Competition," "Research and Development" and "Government Regulation" in Item 1, "Legal Proceedings" in Item 3, and those described below. Readers of this Annual Report on Form 10-K should take such risks into account in evaluating any investment decision involving our common stock. This Item 1A does not describe all risks applicable to our business and is intended only as a summary of certain

material factors that affect our operations in the industries in which we operate. More detailed information concerning these and other risks is contained in other sections of this Annual Report on Form 10-K.

The health enhancement business is an evolving component of the overall healthcare industry.
Health enhancement and wellness services are relatively new components of the overall healthcare industry. Accordingly, some of our potential customers have not had significant experience in purchasing, evaluating or monitoring such services, which can result in a lengthy sales cycle. The success of our business plan relative to our disease and condition management and wellness services depends on a number of factors. These factors include:

- Our ability to differentiate our products and service offerings from those of our competitors;
- The extent and timing of the acceptance of our services as a replacement for, or supplement to, traditional managed care offerings;
- The effectiveness of our sales and marketing efforts;
- Our ability to implement new and additional services beneficial to health plans and employers;
- Our ability to effect and sufficiently communicate cost savings for health plans and employers through the use of our programs; and
- Our ability to improve patient compliance with the complex drug therapies offered by our pharmaceutical customers.

Since the disease and condition management and wellness businesses are continually evolving, we may not be able to anticipate and adapt to the developing market. Moreover, we cannot predict with certainty the future growth rate or the ultimate size of the market.

We are highly dependent on payments from our customers, which may implement cost reduction measures that adversely affect our business and operations.

Healthcare payors continue to face cost reduction pressures that may cause them to curtail their use of or reimbursement for health enhancement services, to negotiate reduced fees or other concessions or to delay payment. These financial pressures could have an adverse impact on our business.

Government regulations may adversely affect our business.
We are subject to extensive and frequently changing federal, state and local regulations. Changes in laws or regulations or new interpretations of existing laws or regulations can have a dramatic effect on operating methods, costs and reimbursement amounts provided by government and third-party payors. There can be no assurance that we are or have been in compliance with all applicable existing laws and regulations or that we will be able to comply with new laws or regulations. Changes in applicable laws or any failure to comply with existing or future laws, regulations or standards could have a material adverse effect on our results of operations, financial condition, business and prospects.

A portion of our disease management fees are contingent upon performance.
Some of our existing disease management agreements contain savings or other guarantees, which typically provide that we will repay all or some of our fees if the payor’s cost savings as a result of our disease and condition management and wellness programs do not meet expectations or if other quality performance measures are not met. There is no guarantee that we will accurately forecast cost savings and clinical outcome improvements under our disease and condition management and wellness agreements or meet the performance criteria necessary to avoid repayment of fees under the agreements. Additionally, untimely, incomplete or inaccurate data from our customers or their vendors, or flawed analysis of such data, could have a material adverse impact on our ability to recognize revenues.

Our operating results have fluctuated in the past and could fluctuate in the future.

Our operating results have varied in the past and may fluctuate significantly in the future due to a variety of factors, many of which are outside of our control. These factors include, but are not limited to:

- the impact of substantial divestitures and acquisitions;
- the loss or addition of customers and referral sources;
- investments required to support growth and expansion;
- changes in the mix of our products and customers;
- changes in healthcare reimbursement policies and amounts;
- length of sales cycle and implementation process for new disease management customers;
- increases in costs of revenues and operating expenses;
- recognition of deferred revenues;
- incurrence of performance penalties;
- increases in selling, general and administrative expenses;
- increased or more effective competition; and
- regulatory changes.

In addition, revenues from our high-risk pregnancy management services are historically lower during the first and fourth calendar quarters than during the second and third calendar quarters. The seasonal variability of demand for these services significantly affects, and we believe will continue to affect, our quarterly operating results.

If our costs of providing products or services increase, we may not be able to pass these cost increases on to our customers.

In many of our markets, due to competitive pressures, we have very little control over the price at which we sell our products and services. If our costs increase, we may not be able to increase our prices, which would adversely affect results of operations. Accordingly, any increase in our costs could reduce our overall profit margin.

Our proposed merger with Inverness may not be consummated or may be delayed, which may adversely affect our anticipated results of operations and financial condition, or both.

In January 2008, we announced that we had signed a definitive merger agreement with Inverness pursuant to which Inverness would acquire Matria. The merger is expected to close in the second quarter of 2008, subject to the satisfaction of customary closing conditions, including the receipt of regulatory and Matria shareholder approvals to the merger. There can be no assurance that all of these conditions will be satisfied. If these conditions are not satisfied or waived, we may be unable to complete the merger.

Upon completion of the merger, 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, and (ii) $6.50 in cash. The value of Inverness common stock might decline prior to the completion of the merger or at any time thereafter. Inverness Series B preferred stock is convertible into Inverness common stock under certain limited circumstances. As a result, the value of the Series B preferred stock is affected by, among other things, fluctuations in the price of Inverness common stock. Accordingly, if the price of Inverness common stock declines prior to the completion of the merger, the value of the Series B preferred stock to be received by Matria stockholders in the merger will decrease as compared to the value on the date the merger was announced. As of the date hereof, the price of Inverness common stock has declined approximately 43% relative to the price on the day of the merger agreement.

As is typical with change of control transactions, Matria employees may experience uncertainty about their future role with the combined company. These employees may leave the Company prior to or after the closing of the merger. This may adversely affect our performance and customer relationships. This uncertainty also may adversely affect the Company's ability to attract and retain key management, sales, marketing, technical and other personnel, pending the closing of the merger. Similarly, Matria's customers may, in response to the announcement of the merger, delay or defer purchasing decisions. Any delay or deferral in purchasing decisions by the Company's customers could harm the business of the Company in the short-term, and the combined company in the long-term.

If the merger is not completed, the price of the Company common stock may decline to the extent that the current market price of the Company reflects a market assumption that the merger will be completed. The management team would have been distracted from running the business and the Company will incur significant costs related to the merger, such as legal, accounting and some of the fees and expenses of their financial advisors, some of which costs must be paid even if the merger is not completed.

Although the Company and Inverness intend that the merger will result in benefits to the combined company, those benefits may not be realized. The integration of the companies will be a complex, time consuming and expensive process and may disrupt the companies' businesses, if not completed in an efficient manner. Failure to realize the expected benefits and/or disruption to the Company's business could materially harm the business and operating results of the combined company.

Recent and future acquisitions may cause integration problems, disrupt our business and strain our resources.

In 2005 and 2006, we made three strategic business acquisitions, and may continue with such acquisitions in the future. Our success will depend, to a certain extent, on the future performance of these acquired business entities. These acquisitions, either individually or as a whole, could divert management attention from other business concerns and expose us to unforeseen liabilities or risks associated with entering new markets and integrating these new entities. Further, the integration of these entities may cause us to lose key employees or key customers. Integrating newly acquired organizations and technologies could be expensive and time consuming and may strain our resources. Consequently, we may not be successful in integrating these acquired businesses or technologies and may not achieve anticipated revenue and cost benefits.

We may face costly litigation that could force us to pay damages and harm our reputation.

Like other participants in the healthcare market, we are subject to lawsuits alleging negligence or other similar legal theories, many of which involve large claims and significant defense costs. Any of these claims, whether with or without merit, could result in costly litigation, and divert the time, attention, and resources of our management. Although we currently maintain liability insurance intended to cover such claims, there can be no assurance that the coverage limits of such insurance policies will be adequate or that all such claims will be covered by insurance. In addition, these insurance policies must be renewed annually. Although we have been able to obtain liability insurance, such insurance may not be available in the future on acceptable terms, if at all. A successful claim in excess of the insurance coverage could have a material adverse effect on our results of operations or financial condition.

If we do not manage our growth successfully, our growth and profitability may slow, decline or stop.

If we do not manage our growth successfully, our growth and profitability may slow, decline or stop. We have expanded our operations rapidly in recent years. This expansion has created significant demands on our administrative, operational and financial personnel and other resources. Additional expansion in existing or new markets could strain our resources and increase our need for capital. Our personnel, systems, procedures, controls and existing space may not be adequate to support further expansion. In addition, because our business strategy emphasizes growth, the failure to achieve our stated growth objectives or the growth expectations of investors could cause our stock price to decline.

Our data management and information technology systems are critical to maintaining and growing our business.

Our health enhancement services are dependent on the effective use of information technology. Although we believe that our systems provide us with a competitive advantage, we are exposed to technology failure or obsolescence. In addition, data acquisition, data quality control and data analysis, which are a cornerstone of our disease management programs, are intense and complex processes subject to error.

Untimely, incomplete or inaccurate data, flawed analysis of such data or our inability to properly integrate, implement and update systems could have a material adverse impact on our business and results of operations.

We have recorded a significant amount of intangible assets, the value of which could become impaired.
Our acquisitions have resulted in the recognition of intangible assets, primarily goodwill. Goodwill, which represents the excess of cost over the fair value of net assets of businesses acquired, and other intangible assets was approximately $543.5 million, net of amortization, at December 31, 2007, representing approximately 79% of our total assets. On an ongoing basis, we will make an evaluation to determine whether events and circumstances indicate that all or a portion of the carrying value of intangible assets may no longer be recoverable, in which case a charge to earnings may be necessary. Any future determinations requiring an asset impairment of a significant portion of intangible assets could materially affect our results of operations for the period in which the adjustment occurs.

The competition for staff may cause us to restrict growth in certain areas or to realize increased labor costs in existing areas.

Our operations are dependent on the services provided by qualified management and staff, including nurses and other healthcare professionals, for which we compete with other health care providers. In addition, our opportunities for growth are limited by our ability to attract and retain such personnel. In certain markets, there is a shortage of nurses and other medical providers, thereby increasing competition and requiring us to improve working conditions, including wages and benefits, for such personnel. Our potential inability to maintain and grow an appropriate workforce may inhibit our expansion and could have a material adverse effect on our financial results.

We derive a significant portion of our revenues from health plan customers.

Although no customer accounts for more than 10% of our revenues, the recent expansion of our large health plan customer base in our disease and condition management business has created greater revenue concentration. Consolidation in the health plan industry may cause us to lose business if one of our health plan customers is acquired by another health plan that has its own health enhancement solution or if one of our existing health plan customers internally develops or acquires a health enhancement solution. Loss of one or more of these customers or their inability or refusal to pay for our services, whatever the reason, could materially and adversely affect our results of operations, cash flows and financial condition. Additionally, a reduction in the number of covered lives enrolled with our health plan customers or a reduction in the scope of their programs could adversely affect our results of operations.

Our actual financial results might vary from our publicly disclosed forecasts.
Our actual financial results might vary from those anticipated by us, and these variations could be material. Our forecasts reflect numerous assumptions concerning our expected performance, as well as other factors, which are beyond our control, and which might not turn out to have been correct. Although we believe that the assumptions underlying the projections are reasonable, actual results could be materially different. Our financial results are subject to numerous risks and uncertainties, including those identified throughout these “Risk Factors” and elsewhere in this Annual Report on Form 10-K.

Our substantial leverage could materially adversely impact our financial condition.

As of December 31, 2007, our total outstanding long-term debt, including current installments, was approximately $283 million, and we had approximately $39 million of additional available borrowings under our credit facilities. Our substantial indebtedness could have a material adverse effect on our financial condition by, among other things:

- increasing our vulnerability to adverse economic conditions or increases in prevailing interest rates, particularly with respect to any of our borrowings at variable interest rates;
- limiting our ability to obtain any additional financing we may need to operate, develop and expand our business;
- requiring us to dedicate a substantial portion of any cash flow from operations to service our debt, which reduces the funds available for operations and future business opportunities; and
- potentially making us more highly leveraged than our competitors, which could potentially decrease our ability to compete in our industry.

Our ability to make interest payments and pay the principal amounts under our credit facilities will depend upon our future operating performance, which is subject to general economic and competitive conditions, and to financial, business and other factors, many of which we cannot control. If the cash flow from our operating activities is insufficient, we may take actions such as delaying or reducing capital expenditures, attempting to restructure or refinance our debt, selling assets or operations or seeking additional equity capital. In addition, the terms of our credit facilities may limit our ability to take several of these actions. Our failure to undertake any of these actions successfully could have a material adverse effect on our business, results of operations and financial condition.

Additionally, our credit facilities contain a number of affirmative, negative, and financial covenants, which limit our ability to take certain actions and require us to comply with specified financial ratios and other performance covenants. If we are unable to comply with our financial covenants or make required payments in the future, our lenders could pursue their contractual remedies, including requiring the immediate repayment in full of all amounts outstanding, if any. Additionally, we cannot be certain that, if the lenders demanded immediate repayment of any amounts outstanding, we would be able to secure adequate or timely replacement financing on acceptable terms or at all.

Forward-Looking Statements. This Annual Report on Form 10-K, including the information incorporated by reference herein, contains various forward-looking statements and information that are based on our beliefs and assumptions, as well as information currently available to us. From time to time, the Company and its officers, directors or employees may make other oral or written statements (including statements in press releases or other announcements) that contain forward-looking statements and information. Without limiting the generality of the foregoing, the words “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” “seek” and similar expressions, when usec Annual Report on Form 10-K and in such other statements, are intended to identify forward-looking statements, although some statements may use other phrasing. All statements that express expectations and projections with respect to future matters, including, without limitation, statements relating to growth, new lines of business and general optimism about future operating results, are forward-looking statements. All forward-looking statements and information in this Annual Report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act, as amended, and are intended to be covered by the safe harbors created thereby. Such forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to differ materially from historical results or from any results expressed or implied by such forward-looking statements. Such factors include, without limitation, the risk factors set forth above under Item 1A, “Risk Factors.” These factors are not intended to be an all-encompassing list of risks and uncertainties that may affect the operations, performance, development and results of our business. Many of such factors are beyond the Company’s ability to control or predict, and readers are cautioned not to put undue reliance on such forward-looking

statements. In providing forward-looking statements, the Company expressly disclaims any obligation to update publicly or otherwise these statements, whether as a result of new information, future events or otherwise except to the extent required by law.

Item 1B. Unresolved Staff Comments.
Not applicable.

Item 2. Properties
Our principal executive and administrative offices are located at 1850 Parkway Place, Marietta, Georgia, and total approximately 95,500 square feet. The facility is leased through February 28, 2010.

In 2007, our wellness and disease management businesses had eight locations, with main care centers in Marietta, Georgia and Sunrise, Florida. The eight locations, which include the CorSolutions' locations described herein, total approximately 145,700 square feet and have lease terms expiring on various dates through June 2011. CorSolutions has four locations with its principal offices located in Rosemont, a suburb of Chicago, Illinois, and three call centers in Florida, Pennsylvania and Arizona. These facilities total approximately 77,000 square feet with lease terms expiring on various dates from 2009 to 2015. Our high-risk pregnancy management services are provided through a network of 38 patient service centers. These patient service centers are typically located in suburban office parks and range between 250 and 5,800 square feet of space, with an average of approximately 1,500 square feet. Total square footage for these facilities is approximately 54,000 square feet. These facilities are leased for terms expiring on various dates through 2010. Additionally, we lease approximately 10,400 square feet under a lease expiring September 2011 for this business's customer support center.

These facilities are generally in good condition, and we believe that they are adequate for and suitable to our requirements.

Item 3. Legal Proceedings
In connection with our acquisition of CorSolutions, we are pursuing a claim for fraudulent misrepresentation and concealment before the American Arbitration Association in Chicago, Illinois, seeking damages in an unspecified amount. There is no assurance that we will prevail in this proceeding.

In addition, we are subject to various legal claims and actions incidental to our business and the businesses of our predecessors, including product liability claims and professional liability claims. We maintain insurance, including insurance covering professional and product liability claims, with customary deductible amounts. There can be no assurance, however, that (i) additional suits will not be filed against us in the future, (ii) our prior experience with respect to the disposition of litigation is representative of the results that will occur in pending or future cases or (iii) adequate insurance coverage will be available at acceptable prices for incidents arising or claims made in the future. There are no other pending legal or governmental proceedings to which we are a party that we believe would, if adversely resolved, have a material adverse effect on us.

Item 4. Submission of Matters to a Vote of Security Holders
Not applicable.

Special Item. Executive Officers of the Company

The following sets forth certain information with respect to the executive officers of the Company:

Name	Age	Position with the Company
Parker H. Petit	68	Chairman of the Board and Chief Executive Officer
Thomas D. Underwood	49	President and Chief Operating Officer
Richard M. Hassett, M.D.	52	Former President and Chief Operating Officer
Yvonne V. Scoggins	58	Senior Vice President – Business Analysis
Roberta L. McCaw	52	Senior Vice President, General Counsel and Secretary
Thornton A. Kuntz, Jr.	54	Senior Vice President and Chief Administrative Officer
Jeffrey L. Hinton	44	Senior Vice President and Chief Financial Officer

The executive officers of the Company are elected annually and serve at the pleasure of the Board of Directors.

Mr. Petit has served as Chairman of the Board of the Company since the formation of the Company through the merger of Healthdyne Maternity Management, a division of Healthdyne, Inc. ("Healthdyne") and Tokos Medical Corporation on March 8, 1996 and as Chief Executive Officer since October 5, 2000, and as President and Chief Executive Officer from October 5, 2000, to February 22, 2003. Mr. Petit was the founder of Healthdyne and served as its Chairman of the Board of Directors and Chief Executive Officer from 1970 until 1996. Mr. Petit is also a director of Intelligent Systems Corporation and Logility, Inc.

Mr. Underwood has served as President and Chief Operating Officer since January 29, 2008. Mr. Underwood previously served as Executive Vice President of Technology since June 2007. Prior to joining the Company, Mr. Underwood served in various positions at First Consulting Group from February 2003 to June 2007, including President-Software Services, Executive Vice President-Healthcare and, most recently, President-Global Services. Mr. Underwood served as President and Chief Executive Officer of Paragon Solutions from January 2000 until February 2003.

Dr. Hassett served as President and Chief Operating Officer from November 7, 2005, to January 29, 2008, and was a member of the Board of Directors from May 31, 2006, through February 26, 2008. He previously served as Executive Vice President and Chief Strategic Officer of the Company from November 14, 2004, to November 6, 2005. From August 2002 to April 2004, Dr. Hassett was Chief Executive Officer and served on the board of Coordinated Care

Solutions, a provider of medical care management services, and from September 2000 to July 2002, he was President and Chief Executive Officer and served on the board of Vivra Asthma & Allergy, Inc., a specialty disease management company. Dr. Hassett previously held executive positions with Accordant Health Services, a healthcare services and technology company from 1997 to August 2000, last serving as Executive Vice President and Chief Medical Officer and as a member of the board.

Ms. Scoggins has served as Senior Vice President – Business Analysis since October 20, 2006, and previously was appointed Senior Vice President – Corporate Finance of the Company from February 22, 2006, to October 20, 2006. She previously served as Vice President - Corporate Finance from July 22, 2004,to February 21, 2006. She was Vice President – Financial Planning and Analysis from February 28, 2001, to July 22, 2004, and previously was Vice President, Treasurer and Chief Accounting Officer of the Company from December 15, 1997, to February 28, 2001, and also Vice President and Controller from March 8, 1996 to December 15, 1997. Prior thereto, she was Vice President and Controller of Healthdyne from May 1995 to March 8, 1996; Vice President – Planning and Analysis of Healthdyne from May 1993 to May 1995; and Vice President and Chief Financial Officer of Home Nutritional Services, Inc., a former majority owned subsidiary of Healthdyne, from February 1990 to April 1993.

Ms. McCaw was appointed Senior Vice President, General Counsel and Secretary of the Company on February 22, 2006. She previously served as Vice President – Legal, General Counsel and Secretary from April 23, 1998, to February 21, 2006. She was Assistant General Counsel and Assistant Secretary of the Company

from December 15, 1997, to April 23, 1998, and Assistant General Counsel from July 1996, to December 1997. Prior thereto, Ms. McCaw was a partner at Tyler, Cooper & Alcorn, a Connecticut-based law firm, from January 1990, to July 1996.

Mr. Kuntz was appointed Senior Vice President and Chief Administrative Officer of the Company on February 22, 2006. He previously served as Vice President – Administration from February 24, 1998, to February 21, 2006, and Vice President – Human Resources of the Company from March 8, 1996, to February 24, 1998. Prior thereto, he served as Vice President – Administration of Healthdyne from August 1992, to March 1996.

Mr. Hinton was appointed Senior Vice President and Chief Financial Officer of the Company on March 20, 2006. From 2004 to March 2006, Mr. Hinton was Vice President, Internal Controls of HealthSouth Corporation. He was Strategic Financial Consultant for Synavant, Inc. from 2002 to 2003. Mr. Hinton held Chief Financial Officer positions with various public and private companies, including SURGICOE Corporation from 2000 to 2002, Wise Business Forms, Inc. from 1997 to 2000, and Notify MD from 1996 to 1997.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Market Information. Matria's common stock is listed on the Nasdaq Global Select Market ("NASDAQ") under the symbol "MATR."

The following table sets forth, for the calendar quarters indicated, the high and low sales prices of Matria's common stock as quoted on NASDAQ from January 1, 2006, through December 31, 2007:

Quarter	Low	High
2006		
First	$ 32.70	$ 45.00
Second	$ 19.77	$ 38.21
Third	$ 21.00	$ 27.98
Fourth	$ 25.10	$ 30.41
2007		
First	$ 24.27	$ 28.98
Second	$ 25.56	$ 32.49
Third	$ 23.80	$ 31.60
Fourth	$ 20.62	$ 29.17

(b) Holders. The approximate number of stockholders of the Company as of February 29, 2008, was 1,900 holders of record and approximately 7,000 beneficial holders.

(c) Dividends. Matria has not paid any cash dividends with respect to its common stock and does not intend to declare any dividends in the near future. The Company's credit facilities contain covenants restricting the payment of dividends on and repurchases of the Company's common stock.

(d) Purchases of Equity Securities. During the fourth quarter of 2007, Matria did not repurchase any of its outstanding equity securities.

Item 6. Selected Financial Data

The following table sets forth selected consolidated financial data with respect to the Company's operations. The data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes thereto. The statement of operations data for each of the five years ended December 31, 2007, and the related balance sheet data have been derived from the audited consolidated financial statements (in thousands, except per share data).

	Years Ended December 31,				
	2007	2006	2005	2004	2003
Consolidated statements of operations data: (1)					
Revenues from continuing operations	$ 352,235	$ 336,139	$ 179,231	$ 145,087	$ 123,196
Earnings (loss) from continuing operations	21,065	18,475	4,014	(20,077) (2)	(8,505)
Earnings (loss) from continuing operations per share:					
Basic	$ 0.99	$ 0.88	$ 0.21	$ (1.29)	$ (0.56)
Diluted	0.96	0.85	0.20	(1.29)	(0.56)

	December 31,				
	2007	2006	2005	2004	2003
Consolidated balance sheet data:					
Total assets	$ 686,238	$ 711,373	$ 323,207	$ 307,392	$ 333,482
Long-term debt, excluding current installments	238,688	275,938	2,099	85,751	121,005

(1) Consolidated statements of operations data includes the results from the following acquisitions: CorSolutions Medical, Inc. effective January 1, 2006; WinningHabits, Inc. effective October 1, 2005; and Miavita LLC effective April 1, 2005.
(2) Includes a charge of $22.9 million, or $14.1 million net of taxes, resulting from the retirement of $120 million in aggregate principal amount of the Company's 11% Senior Notes.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes and other financial information appearing elsewhere in this Annual Report. The discussion contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in the forward-looking statements as a result of a variety of factors, including those discussed in "Risk Factors" in this Annual Report. The historical results of operations are not necessarily indicative of future results.

Executive Overview

We are a leading provider of comprehensive, integrated programs and services focused on wellness, disease and condition management, productivity enhancement and informatics. This suite of services, which we call "Health Enhancement," is designed to reduce health related costs and enhance the health and quality of life of the individuals we serve. We are dedicated to developing better educated, motivated and self-enabled healthcare consumers and supporting clinicians in managing the care of their patients. We provide services to self-insured employers, private and government sponsored health plans, pharmaceutical companies and patients. Our employer clients are primarily Fortune 1000 companies that self-insure the medical benefits provided to their employees, dependents and retirees. Our health plan customers are regional and national health plans, as well as government-sponsored health plans, such as state Medicaid programs.

Our on-line, interactive wellness programs address issues such as: smoking cessation, weight loss, exercise, healthier diet, stress relief, healthy aging, and productivity enhancement. These programs are designed to help employees and health plan members live healthier and longer lives while reducing their healthcare costs and increasing their productivity.

Our disease and condition management programs focus on the most costly medical conditions including, without limitation, diabetes, cardiovascular diseases, respiratory disorders, depression, musculoskeletal and chronic pain, hepatitis C, cancer and high-risk pregnancies. We assist individuals to better manage their conditions by increasing their knowledge about their illnesses or conditions, potential complications and the importance of medication and treatment plan compliance. Depending on acuity, our specialized nurses proactively contact participants to monitor their progress and ensure they are following the plan of care set by their physician.

Acquisitions and Dispositions

On January 19, 2006, we completed the acquisition of CorSolutions Medical, Inc. ("CorSolutions"), a disease management, health and wellness and productivity enhancement organization. The results of CorSolutions' operations are included in our results of operations effective January 1, 2006.

On October 1, 2005, we completed the acquisition of WinningHabits, Inc. ("WinningHabits"), a premier provider of corporate wellness programs. On April 1, 2005, we completed the acquisition of the business and assets of Miavita LLC ("Miavita"), a leading provider of on-line health and wellness programs. Results of operations of these businesses were included in the results of operations from the respective acquisition dates.

During the third and fourth quarters of 2006, we completed the divestitures of Facet Technologies LLC ("Facet") and our foreign diabetes service operations in Germany ("Dia Real"), respectively. We made the strategic decision to divest Facet and Dia Real in the fourth quarter of 2005. On June 30, 2004, we completed the sale of substantially all of the assets, excluding trade and certain other receivables, of our domestic direct-to-consumer pharmacy and supplies business. In the accompanying consolidated financial statements, the results of operations of these businesses are

included in discontinued operations for all periods presented.

Financial and Performance Highlights of 2007

For the year ended December 31, 2007, we reported $352.2 million in net revenues, a growth of 4.8% over the year ended December 31, 2006. We also reported $21.1 million of earnings from continuing operations, a growth of 14.1%, compared to $18.5 million earnings from continuing operations for the year ended December 31, 2006. Our diluted earnings per share from continuing operations increased to $0.96 per common share, compared to $0.85 per common share in 2006.

Business Strategy

Our goal is to position ourselves as an industry leader in the health enhancement market. We seek to achieve this goal by pursuing the following strategies:

Capitalize on our Position as a Pure Play in the Health Enhancement Market. We believe our extensive experience, scalable, established infrastructure and demonstrated clinical and financial outcomes will provide us a significant competitive advantage as we seek to capitalize on the growing market for health enhancement. Including our predecessor organizations, we have more than 15 years of experience in providing disease management and related services. Our established infrastructure includes our proprietary informatics technology platform, care center operations located throughout the United States and a national network of skilled multi-disciplinary clinicians.

Leverage Our Information Technology. We will continue to make significant investments in our information technology systems in order to better identify participants for intervention and improve treatment plans for these identified participants by reducing variations in care by consistent applications of national criteria and standards of care. We expect to leverage this technology through the expansion of our informatics business.

Further Penetrate All Key Segments of the Growing Health Enhancement Market. We intend to expand our customer base within the employer, health plan, state and federal governments, and pharmaceutical markets. We believe there is a significant opportunity to expand our health enhancement business by cross-selling other products and services to existing customers as they realize the cost savings and superior clinical outcomes that our programs provide.

Results of Operations

The following table summarizes key components in our financial statements for continuing operations expressed as a percentage of revenues.

	Years Ended December 31,		
	2007	2006	2005
Revenues	100.0%	100.0%	100.0%
Cost of revenues	30.5%	32.7%	40.7%
Gross margin	69.5%	67.3%	59.3%
Selling and administrative expenses	49.6%	47.3%	52.6%
Provision for doubtful accounts	1.5%	1.2%	1.9%

Amortization of intangible assets	2.0%	2.1%	0.2%
Operating earnings	16.4%	16.6%	4.5%
Interest expense, net	6.3%	7.7%	0.9%
Other income, net	0.1%	0.4%	0.1%
Earnings from continuing operations before income taxes	10.1%	9.3%	3.8%
Income tax expense	4.1%	3.8%	1.5%
Earnings from continuing operations	6.0%	5.5%	2.2%

2007 Compared to 2006

Revenues increased by $16.1 million, or 4.8%, to $352.2 million for the year ended December 31, 2007, from $336.1 million for 2006. The increases were due primarily to the implementation of new and expanded disease management and wellness contracts, net of attrition, and the favorable impact of achieving certain performance targets. Disease and condition management program revenues increased $9.4 million, or 4.5%, to $218.6 million for the year ended December 31, 2007. Wellness program revenues increased $8.3 million, or 42.9%, to $27.8 million in 2007 from $19.4 million in 2006. Maternity management program revenues decreased $1.6 million, or 1.5%, to $105.9 million for the year ended December 31, 2007, primarily due to decreased preterm labor management revenues resulting from a decline in census and patient days, partially offset by higher revenues from our MaternaLink® services.

Cost of revenues consists primarily of clinical labor and supplies related to the provision of services. Cost of revenues as a percentage of revenues decreased to 30.5% for the twelve-month period ended December 31, 2007, from 32.7% in 2006. This decrease was primarily due to (i) an increase in our high-margin disease management and wellness revenues, and (ii) the availability of a lower cost generic drug for Zofran, which is used for nausea and vomiting in our maternity management services. These decreases in cost of revenues as a percentage of revenue were partially offset by increases in cost as a percentage of revenues for certain clinical services for preterm labor management.

Selling and administrative expenses increased $15.6 million, or 9.8%, to $174.6 million for the year ended December 31, 2007, from $159.0 million in 2006. Our costs for salaries and other personnel-related expenses increased $9.4 million due primarily to additional costs in our information technology area. Depreciation and amortization expense increased $1.7 million as a result of our increased technology investments. Share-based compensation expense increased $4.9 million due to an increase in expense related to our restricted stock awards, which are performance-based and service-based and have shorter vesting periods than certain stock options with grants dating back to 2003 that have expense continuing into 2007 and 2008. Selling and administrative expenses as a percentage of revenues increased to 49.6% in 2007 from 47.3% in 2006.

The provision for doubtful accounts as a percentage of revenues was 1.5% for the year ended December 31, 2007, compared to 1.2% in 2006. The provision, which is recorded primarily for our maternity management program revenues, is adjusted periodically based upon our quarterly evaluation of historical collection experience, recoveries of amounts previously provided, industry reimbursement trends and other relevant factors. The percentage increase results from an increase in bad debts for our disease and condition management and wellness revenues.

We recorded $7.1 million expense in both 2007 and 2006 from the amortization of intangible assets. The amortization expense results from our acquisitions of CorSolutions in 2006 and WinningHabits and Miavita in 2005.

Interest expense decreased $3.7 million to $23.9 million in 2007, from $27.6 million in 2006 due primarily to lower interest rates due to refinancing the Second Lien Facility of our Credit Facilities, combined with a lower outstanding balance of our Credit Facilities, which we entered into in January 2006 in conjunction with our acquisition of CorSolutions. In November 2006, we amended the terms of our Credit Facilities, effectively reducing the interest rate on certain outstanding indebtedness to LIBOR plus 2.0%, a 475 basis point reduction. In 2006, we allocated $9.8 million of interest expense and amortization expense of deferred financing fees related to the Credit Facilities to discontinued operations in accordance with Emerging Issues Task Force (“EITF”) Issue 87-24, Allocation of Interest to Discontinued Operations (“EITF 87-24”). EITF 87-24 states that interest on debt that must be repaid when the disposal of discontinued operations occurs should be allocated to discontinued operations. In accordance with the terms of the Credit Facilities, we used the net proceeds from the sales of Facet in the third quarter of 2006 and Dia Real in the fourth quarter of 2006 to repay a portion of the outstanding indebtedness. The weighted average interest rates, including amortization of debt discount and expense, on all outstanding indebtedness were 8.24% and 9.29% for the years ended December 31, 2007 and 2006, respectively.

Other income, net, decreased to $227,000 in 2007 from $1.3 million in 2006. In 2006, we recorded a $741,000 gain from the settlement of the forward exchange agreement we entered into with a bank to eliminate the potential impact of foreign exchange fluctuations on the U.S. dollar equivalent of the expected euro proceeds from the sale of Dia Real. Under the terms of the agreement, we sold €26.0 million at the forward rate and received approximately $33.4 million on the settlement date. We reported the forward exchange agreement at fair value until settled in October 2006. Other income also includes collections of notes and receivables that were previously written-off, royalties and other miscellaneous items in both periods.

Income tax expense was $14.5 million and $12.8 million for the twelve months ended December 31, 2007 and 2006, respectively. Our effective income tax rates were 40.8% in 2007 and 40.9% in 2006. The effective income tax rate is higher than the statutory federal tax rate due to state income taxes and certain non-deductible expenses for tax purposes. Cash outflows for income taxes for continuing and discontinued operations in 2007 and 2006 were $3.7 million and $6.7 million, respectively, comprised of federal alternative minimum taxes, state income taxes and, in 2006, foreign taxes. As of December 31, 2007, our remaining net operating loss carryforwards were $47.8 million, which we expect will be available to offset future taxable income, subject to certain limitations. We expect to use approximately $21.6 million of our net operating loss carryforwards in 2008.

Discontinued operations in 2007 and 2006 include the operations of Facet and Dia Real. The loss from discontinued operations for the year ended December 31, 2007, was $86,000, net of tax, compared to earnings of $5.3 million in 2006. In 2007, we recorded a credit of $896,000 to Gain on disposal of discontinued operations, which related primarily to the increased utilization of foreign tax credits in our 2006 federal tax return. We also recorded $447,000 of tax expense for an increase in the liability for the tax benefits recognized which may not be sustained as a result of our adoption of the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48") on January 1, 2007. Discontinued operations in 2006 include a pre-tax charge of $9.8 million for the allocation of interest and deferred financing fees related to the Credit Facilities. On September 1, 2006, we completed the sale of Facet for net cash proceeds of $121.9 million and recorded a gain on the sale of $26.6 million, or $23.9 million, net of income taxes. We wrote-off $76.2 million of goodwill and recorded $541,000 for unamortized share-based compensation expense resulting from the accelerated vesting of options granted to the Facet employees. On October 17, 2006, we completed the sale of Dia Real for net cash proceeds of $33.3 million. The gain on the sale was $9.1 million, or $5.0 million net of income taxes, and included charges of $3.6 million for net goodwill and intangibles and $67,000 for unamortized share-based compensation. The net proceeds from these divestitures were used to repay a portion of the outstanding indebtedness under our First Lien Credit Facility (see below).

2006 Compared to 2005

Revenues from continuing operations increased by $156.9 million, or 87.5%, to $336.1 million for the year ended December 31, 2006, from $179.2 million in 2005. This increase was due primarily to our acquisitions of CorSolutions effective January 1, 2006, Winning Habits on October 1, 2005, and Miavita on April 1, 2005. Revenues from these acquired businesses contributed $135.9 million, or 86.6%, to the 2006 increase. Also contributing to the revenue growth was the addition of new and expanded accounts that were implemented in 2005 and 2006. Excluding maternity management program revenues, disease and condition management program revenues, including wellness program revenues, increased $151.2 million, or 195.4%, to $228.6 million for the year ended December 31, 2006. Wellness program revenues were $19.4 million for the year ended December 31, 2006, compared to $4.9 million in 2005. Maternity management program revenues increased $5.7 million, or 5.6%, to $107.5 million for the year ended December 31, 2006. This increase was due to an increase in the days of service and an increase in the portion of our maternity management programs generating revenues as a result of electronic identification of potential patients.

Cost of revenues, which consists primarily of clinical labor and supplies related to the provision of services, as a percentage of revenues decreased to 32.7% for the year ended December 31, 2006, from 40.7% in 2005. This

decrease was primarily due to the growth in the disease management and wellness program revenues and improved margins from these programs resulting from the leveraging impact of higher revenues.

Selling and administrative expenses increased $64.7 million to $159.0 million for the year ended December 31, 2006, compared to $94.3 million in 2005. We incurred increased costs as a result of our 2005 and 2006 acquisitions, primarily for salaries and other personnel-related expenses and increased depreciation and amortization expenses related to our technology investments. Also included in our 2006 expense is approximately $7.0 million of share-based compensation associated with the adoption of FASB Statement of Financial Accounting Standards ("SFAS") No. 123(R), Share-Based Payment ("SFAS 123(R)"). As a percentage of revenues, selling and administrative expenses decreased to 47.3% in 2006, compared to 52.6% in 2005, primarily due to the leveraging impact of higher revenues and the synergies realized from the integration of the CorSolutions acquisition in 2006.

The provision for doubtful accounts as a percentage of revenues was 1.2% in 2006 compared to 1.9% in 2005. The provision, which is recorded primarily for our maternity management program revenues, is adjusted periodically based upon our quarterly evaluation of historical collection experience, recoveries of amounts previously provided, industry reimbursement trends and other relevant factors. The percentage decrease results from an increase in the portion of revenues from our non-maternity management program sources.

We recorded $7.1 million and $365,000 of expense in 2006 and 2005, respectively, from the amortization of intangible assets. The increase in amortization expense resulted primarily from our 2006 acquisition of CorSolutions.

Interest expense, net, increased to $26.0 million in 2006 from $1.6 million in 2005. This increase was primarily the result of the Credit Facilities we entered into in January 2006 in conjunction with our acquisition of CorSolutions (discussed below under "Liquidity and Capital Resources – Financing Activities"). In 2006, we allocated $9.8 million of interest expense and amortization expense of deferred financing fees related to the Credit Facilities to discontinued operations in accordance with EITF 87-24 as noted above. The weighted average interest rates, including amortization of debt discount and expense and net gains from interest rate swap transactions, on all outstanding indebtedness were 9.29% and 6.80% for years ended December 31, 2006 and 2005, respectively.

Other income (expense), net, increased to $1.3 million in 2006 from $226,000 in 2005. In 2006, we recorded a $741,000 gain from the settlement of the forward exchange agreement we entered into with a bank to eliminate the potential impact of foreign exchange fluctuations on the U.S. dollar equivalent of the expected euro proceeds from the sale of Dia Real. Under the terms of the agreement, we sold €26.0 million at the forward rate and received approximately $33.4 million on the settlement date. We reported the forward exchange agreement at fair value until settled in October 2006. Other income also includes collections of notes and receivables that were previously written-off, royalties and other miscellaneous items in both periods and favorable currency adjustments on a euro-denominated receivable in 2005.

Income tax expense for the year ended December 31, 2006, reflects a higher effective tax rate than the statutory federal tax rate due to state income taxes and certain non-deductible expenses for tax purposes. Our effective income tax rates were 40.9% in 2006 and 40.5% in 2005. The effective income tax rate is higher than the statutory federal tax rate due to state income taxes and certain non-deductible expenses for tax purposes. Cash outflows for income taxes for continuing and discontinued operations in 2006 and 2005 were $6.7 million and $4.0 million, respectively, comprised of foreign, federal alternative minimum taxes and state income taxes.

Earnings (loss) from discontinued operations for the years ended December 31, 2006 and 2005, include the operations of Facet, Dia Real and our domestic direct to consumer pharmacy and supplies business (sold on June 30, 2004). Earnings from discontinued operations were $5.3 million, net of tax, in 2006 compared to $9.9 million in 2005. Discontinued operations in 2006 include a pre-tax expense of $9.8 million for the allocation of interest and deferred financing fees to Facet and Dia Real related to the Credit Facilities as described above; $1.1 million of this amount was charged to the gain on disposal of discontinued operations. In 2005, we recorded a $10 million pre-tax charge for the settlement of the qui tam claims related to our pharmacy and supplies business. The purchaser of the pharmacy and supplies business did not assume the liability for these

claims. Our earnings from discontinued operations in 2005 also include a $2 million charge for the write-off of the remaining accounts receivable of our pharmacy and supplies business, which we retained after the sale. The collection efforts for these receivables were outsourced to a third party in the first quarter of 2005.

On September 1, 2006, we completed the sale of Facet for net cash proceeds of $121.9 million and recorded a gain on the sale of $26.6 million, or $23.9 million, net of income taxes. We wrote-off $76.2 million of goodwill and recorded $541,000 for unamortized share-based compensation expense resulting from the accelerated vesting of options granted to the Facet employees. On October 17, 2006, we completed the sale of Dia Real for net cash proceeds of $33.3 million. The gain on the sale was $9.1 million, or $5.0 million net of income taxes, and included charges of $3.6 million for net goodwill and intangibles and $67,000 for unamortized share-based compensation. The net proceeds from these sales were used to repay a portion of the outstanding indebtedness under our First Lien Credit Facility (see below).

Liquidity and Capital Resources
Operating Activities

As of December 31, 2007, we had cash and cash equivalents of $19.5 million. Net cash from continuing operations provided $60.7 million in 2007, compared to $27.4 million in 2006 and $5.0 million in 2005. In 2007, we had an increase in earnings from continuing operations and increases in non-cash charges for depreciation and amortization, provision for doubtful accounts and share-based compensation. Also in 2007, the change in accounts receivable provided $1.8 million as compared to a use of cash of $7.9 million in 2006 and $8.1 million in 2005. Days' sales outstanding, or DSO, improved to 47 days in 2007, from 54 days and 63 days at December 31, 2006 and 2005, respectively. Though revenue increased year-over-year, the decline in DSO reflects the continuing improvement in receivables management. In 2006, accrued and other liabilities used cash for the payment of transaction-related expenses incurred in the CorSolutions acquisition.

Cash flows from discontinued operations were $(1.4) million, $(3.1) million and $20.0 million for the years ended December 31, 2007, 2006 and 2005, respectively. Net cash used in discontinued operations in 2007 is driven primarily by the payment of certain expenses related to the sale of Facet and Dia Real. In 2006, cash flows used in discontinued operations included a $10.0 million settlement payment, net of $150,000 insurance reimbursement, for the two qui tam actions filed against the Company and its former subsidiary, Diabetes Self Care, Inc. This charge was included in earnings from discontinued operations for the year ended December 31, 2005. The 2006 period also reflects the allocation of $9.8 million in interest expense (before taxes) discussed above.

Investing Activities

Net cash used in investing activities totaled $60.2 million, $299.4 million and $28.9 million in 2007, 2006 and 2005, respectively. The increase in net cash used in investing activities is driven primarily by our acquisition and divestiture activities. The results of operations of our acquired businesses have been included in our consolidated statements of operations since their respective acquisition dates.

On January 19, 2006, we completed the acquisition of CorSolutions for a cash payment of $434.7 million, net of cash acquired. Pursuant to the CorSolutions' merger agreement, we pursued a claim before a contractually-designated settlement accountant for certain post-closing adjustments, including a $4.0 million claim relating to a liability resulting from CorSolutions' pre-closing performance under a customer contract. On September 20, 2007, the settlement accountant awarded us $3.9 million related to the undisclosed liability described above. That award was offset by $1.3 million related to certain payroll taxes arising from the deemed exercise of options by employees of the sellers who subsequently became employees of the Company, resulting in a net award of $2.6 million. These amounts, when included in the post-closing adjustment mechanism pursuant to the merger agreement, resulted in the Company receiving $1.6 million plus $199,000 of interest. As a result, the purchase price consideration, excluding

cash acquired, was decreased by $1.6 million. We also decreased goodwill by $1.6 million in 2007 for the consideration received as a result of this adjustment.

Additionally in 2006, we successfully completed the divestitures of Facet on September 1, 2006, for cash proceeds of $119.8 million, net of transaction costs, and Dia Real on October 19, 2006, for cash proceeds of $30.5 million, net of transaction costs.

In 2005, cash used in investing activities included $19.7 million for the acquisition of two businesses. On April 1, 2005, we acquired the business and assets of Miavita for a net cash payment of $4.8 million, with additional amounts to be paid in future periods under an earn-out agreement. On October 1, 2005, we acquired the business of WinningHabits for a net cash payment of $14.9 million, with additional amounts to be paid in 2007 under an earn-out agreement. In May 2006, we paid $1.7 million of additional consideration for the first earn-out period of Miavita acquisition as a result of certain operating milestones being achieved. During the second quarter of 2007, we paid a total of $50.7 million of additional earn-out consideration for the acquisitions of Miavita ($22.0 million) and WinningHabits ($28.7 million). These payments were recorded as additional goodwill. For the Miavita acquisition, additional consideration may be payable in future periods through 2010 based on a percentage of specified revenues from certain Miavita customer agreements. We estimate the additional consideration payable to be less than $500,000.

We used $12.5 million in 2007, $13.1 million in 2006 and $11.1 million in 2005 for capital expenditures for continuing operations. These investments in our property and equipment relate primarily to the replacement and enhancement of computer information systems and to the replacement of medical devices used in our maternity management programs. Discontinued operations' capital expenditures of $379,000 in 2006 and $1.5 million in 2005 relate primarily to purchases of machinery and equipment and computer information systems.

Financing Activities

Net cash provided by (used in) financing activities was $547,000, $271.7 million and $(8.2) million for 2007, 2006 and 2005, respectively.

During 2007, our borrowings included $40.0 million under our Revolving Credit Facility (described below). We repaid $44.2 million of short-term indebtedness and capital lease obligations during the twelve-month period ended December 31, 2007. Our 2007 repayments include $10.3 million for our Credit Facilities, $30.0 million for the Revolving Credit Facility and $2.0 million to redeem our remaining outstanding unsecured 11% Senior Notes, $120 million of which had been redeemed in June 2004. During the third quarter of 2006, we made prepayments of $125.0 million toward the reduction of the Credit Facility, using $115.0 proceeds from the Facet divestiture and $10.0 million from operating cash flows.

During 2006, we used proceeds of $444.0 million, net of debt issuance costs of $11.0 million, from our Credit Facilities to fund the acquisition of CorSolutions on January 19, 2006.

The Credit Facilities consist of term loans and revolving credit loans pursuant to a credit agreement and a second lien term loan facility with Bank of America, N.A., as administrative and collateral agent. The Credit Facilities, as amended, provide for borrowings of up to an aggregate of $485 million and were divided between a First Lien Credit Facility and a Second Lien Credit Facility. The Credit Facilities replaced our previous revolving credit facility, which was terminated on January 13, 2006. There were no amounts outstanding under the revolving credit facility at the time of termination.

The Credit Facilities mature on January 19, 2012. Amounts borrowed under the Credit Facilities, as amended, accrue interest at a variable spread over LIBOR, with the applicable spread determined by the Company's consolidated leverage ratio, as described in the applicable credit agreement. Interest rates for the Credit Facilities are reset quarterly. Amounts borrowed are fully and unconditionally guaranteed on a joint and several basis by substantially all of our subsidiaries. As of December 31, 2007, the outstanding balance under the Credit Facilities was $266.9 million, excluding the Revolving Credit Facility noted below.

The Credit Facilities also provide for a Revolving Credit Facility. Amounts borrowed under the Revolving Credit Facility accrue interest at a variable spread over LIBOR or the prime rate, at our option, with the applicable spread determined by reference to our consolidated leverage ratio, as described in the credit agreement. At December 31, 2007, $10.0 million was outstanding under the Revolving Credit Facility, and the available balance was $38.6 million.

In November 2006, we amended the terms of the Credit Facilities. Under the amended agreement, the First Lien Credit Facility was increased by $65.0 million, the proceeds of which were used to prepay the Second Lien Credit Facility. Borrowings under the First Lien Credit Facility bore interest at LIBOR plus 2.00%, a 475 basis point reduction from the Second Lien Credit Facility. All the other terms and conditions of the Credit Agreement (other than those relating to the increased amount of the First Lien Credit Facility and those that are no longer applicable because they relate solely to the Second Lien Credit Facility) remain unchanged. We incurred fees and expenses of approximately $1.7 million, which were recorded as deferred financing costs and are being amortized over the term of the First Lien Credit Facility (January 2012). On February 23, 2007, we entered into a third amendment to the Credit Facilities, the terms of which increased our borrowing capacity under the Revolving Credit Facility from $30.0 million to $50.0 million. All other terms of the Credit Facilities, as amended, remain unchanged.

The Credit Facilities contain, among other things, various representations, warranties and affirmative, negative and financial covenants customary for financings of this type. The negative covenants include, without limitation, certain limitations on transactions with affiliates, liens, making investments, the incurrence of debt, sales of assets, and changes in business. The financial covenants contained in the Credit Facilities include a consolidated leverage ratio and a consolidated fixed charges coverage ratio. At December 31, 2007, we were in compliance with all covenants of the Credit Facilities.

In February and May 2006, we entered into two interest rate swap agreements totaling $200.0 million notional amount to hedge our exposure to fluctuations in interest rates related to the Credit Facilities. The swap agreements had the economic effect of converting $200.0 million of our floating-rate debt under the Credit Facilities to fixed-rate debt. Under the terms of the agreements, we will pay the bank fixed base rates of 5.065% and 5.350%, respectively, and the bank will pay us floating rates based on three-month LIBOR (5.015% and 4.830%, respectively, at December 31, 2007). In August 2007, we entered into two additional interest rate swap agreements, each with notional amounts of $100.0 million. These swap agreements are scheduled to become effective after the termination of the swaps noted above (February and May 2008). These agreements also have two-year terms, and have the economic effect of converting $200.0 million of floating-rate debt to fixed-rate debt. We will pay the bank fixed base rates of 4.890% and 4.910%, respectively, under these swap arrangements, and the bank will pay us floating rates based on three-month LIBOR.

We reflected the interest rate swap agreements on the consolidated balance sheet at a fair value of $5.1 million and $62,000 at December 31, 2007 and 2006, respectively, based upon the estimated amount we would pay upon settlement of the agreements taking into account interest rates on those dates. For the years ended December 31, 2007 and 2006, we recognized net gains of $264,000 and $79,000, respectively, from the cash flow hedges. These amounts are included in Interest expense in the consolidated statements of operations.

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In September 2006, we entered into a forward exchange agreement with a bank to eliminate the potential impact of foreign exchange fluctuations on the U.S. dollar equivalent of the expected euro proceeds from the sale of Dia Real. Under the terms of the agreement, we agreed to sell €26.0 million at the forward rate (1.2837) and receive approximately $33.4 million on the settlement date. We reported the forward exchange agreement at fair value on our consolidated balance sheet until it was settled in October 2006.

On April 27, 2005, we issued a notice of our intention to redeem $86.3 million in aggregate principal amount of 4.875% convertible senior subordinated notes on May 27, 2005. In response to the redemption notice, all noteholders converted their notes into shares of the Company’s common stock prior to the redemption date, and the Company issued approximately 4.4 million shares of common stock ($19.61 per share). In addition, the redemption also

required us to make a "make-whole payment" equal to the present value, as of the redemption date, of all remaining scheduled interest payments on the notes through May 1, 2009. We paid the noteholders the "make-whole payment" totaling $15.5 million ($3.52 per share), which

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included $294,000 of accrued but unpaid interest. The "make-whole payment," excluding the accrued but unpaid interest, was accounted for in accordance with SFAS No. 84, Induced Conversion of Convertible Debt. Since the conversion was pursuant to the original conversion terms and no inducement was made to the noteholders, no loss was recognized with respect to the "make-whole payment," excluding the accrued but unpaid interest, or the shares issued.

We received $2.6 million, $6.0 million and $7.3 million from participants under our stock purchase and stock option plans in 2007, 2006 and 2005, respectively.

We believe that our cash, other liquid assets, operating cash flows and Credit Facilities, taken together, will provide adequate resources to fund ongoing operating requirements, planned capital expenditures and contractual obligations through the remainder of 2008.

Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

We have various contractual obligations that are appropriately recorded as liabilities in our consolidated financial statements. Certain other items, such as operating lease obligations, are not recognized as liabilities in our consolidated financial statements but are required to be disclosed. The following sets forth our future minimum payments required under contractual obligations as of December 31, 2007 (in thousands):

	Payments Due by Year				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Long-term debt obligations (1)	$ 335,224	$ 31,169	$ 38,784	$ 265,271	$ -
Capital lease obligations	23	23	-	-	-
Operating lease obligations	23,366	8,059	9,906	2,945	2,456
Other long-term obligations	4,076	1,697	2,379	-	-
	$ 362,689	$ 40,948	$ 51,069		