

MATRIA HEALTHCARE INC

Form PRE 14A

April 13, 2005

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-11(c) or § 240.14a-12

MATRIA HEALTHCARE, INC.
(Name of Registrant as Specified in Its Charter)

N/A

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

Payment of filing fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies: _____

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

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

(4) Proposed maximum aggregate value of transaction: _____

(5) Total fee paid: _____

Fee paid previously with preliminary materials.

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Form or Schedule and the date of its filing.

(1) Amount Previously Paid: _____

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

(3) Filing party: _____

(4) Date Filed: _____

MATRIA HEALTHCARE, INC.

**1850 Parkway Place
Marietta, Georgia 30067**

NOTICE OF 2005 ANNUAL MEETING OF STOCKHOLDERS

To be Held on June 1, 2005

NOTICE IS HEREBY GIVEN THAT the 2005 Annual Meeting of Stockholders of Matria Healthcare, Inc. (the Company or Matria), will be held on Wednesday, June 1, 2005, at 10:30 a.m. local time at 1850 Parkway Place, Suite 600A, Marietta, Georgia 30067, for the following purposes:

- (1) To elect three Class I directors of the Company for a three-year term expiring at the 2008 Annual Meeting of Stockholders and one Class II director for a two-year term expiring at the 2006 Annual Meeting of Stockholders and until their respective successors are duly elected and qualified;
- (2) To approve the Matria Healthcare, Inc. 2005 Stock Purchase Plan;
- (3) To amend the Matria Healthcare, Inc. 2004 Stock Incentive Plan;
- (4) To approve the Matria Healthcare, Inc. 2005 Directors Non-qualified Stock Option Plan;
- (5) To approve an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares of Common Stock;
- (6) To approve an amendment to the Certificate of Incorporation of Matria Women's and Children's Health, Inc. to eliminate the voting provisions related to Section 251(g) of the Delaware General Corporation Law; and
- (7) To transact such other business as properly may come before the Annual Meeting and any adjournment or postponement thereof.

Your vote is important regardless of the number of shares you own. Each stockholder, even those who plan to attend the annual meeting, are requested to sign, date and return the enclosed proxy card without delay in the enclosed postage-paid envelope. You may revoke your proxy at any time prior to its exercise. Any stockholder present at the annual meeting or any adjournment or postponement thereof may revoke his or her proxy and vote personally on each matter brought before the meeting.

I look forward to welcoming you at the meeting.

Very truly yours,

Roberta L. McCaw
Secretary

Marietta, Georgia
April __, 2005

MATRIA HEALTHCARE, INC.

**1850 Parkway Place
Marietta, Georgia 30067**

**PROXY STATEMENT
ANNUAL MEETING OF STOCKHOLDERS**

To Be Held June 1, 2005

GENERAL INFORMATION

This proxy statement and the accompanying proxy card are being furnished to stockholders in connection with the solicitation of proxies by the Board of Directors of Matria Healthcare, Inc., a Delaware corporation (the Company), for use at the 2005 Annual Meeting of Stockholders (the Annual Meeting) to be held on Wednesday, June 1, 2005, at 10:30 a.m. local time at 1850 Parkway Place, Suite 600A, Marietta, Georgia 30067, and at any adjournment or postponement thereof.

At the Annual Meeting, stockholders will consider and vote upon proposals to re-elect three Class I directors and elect one additional Class II director, approve the 2005 Stock Purchase Plan, approve the amendments to the 2004 Stock Incentive Plan, approve the 2005 Directors Non-Qualified Stock Option Plan, approve amendments to the Certificates of Incorporation of the Company and Matria Women's and Children's Health, Inc. and such other matters as properly may come before the Annual Meeting. The Board unanimously urges stockholders to vote FOR the re-election of the Class I directors, FOR the election of the Class II director, FOR the approval of the 2005 Stock Purchase Plan, FOR the approval of the amendments to the 2004 Stock Incentive Plan, FOR the approval of the 2005 Directors Non-Qualified Stock Option Plan, FOR approval of the amendment to the Company's Certificate of Incorporation, and FOR approval of the amendment to the Certificate of Incorporation of Matria Women's and Children's Health, Inc.

It is anticipated that this proxy statement, the accompanying proxy and the 2004 Annual Report to Stockholders will first be mailed to the Company's stockholders on or about April 22, 2005.

Record Date

The Board of Directors has fixed the close of business on April 15, 2005, as the record date (the Record Date) for the determination of stockholders entitled to notice of, and to vote at, the Annual Meeting and at any adjournment or postponement thereof. At the close of business on the Record Date, _____ shares of Common Stock were issued and outstanding.

Proxies

When a proxy card is returned, properly signed and dated, the shares represented thereby will be voted in accordance with the instructions on the proxy card. If a stockholder does not attend the Annual Meeting and does not return the signed proxy card, such stockholder's shares will not be voted. If a stockholder returns a signed proxy card but does not indicate how his or her shares are to be voted, such shares will be voted FOR the election of the Class I and Class II directors named herein, FOR the adoption of the 2005 Stock Purchase Plan, FOR the amendments to the 2004 Stock Incentive Plan, FOR the adoption of the 2005 Directors Non-Qualified Stock Option Plan, FOR the amendment to the Company's Certificate of Incorporation, and FOR the amendment to the Certificate of Incorporation of Matria Women's and Children's Health, Inc. As of the date of this proxy statement, the Board of Directors does not

know of any other matters that are to come before the Annual Meeting. If any other matters are properly presented at the Annual Meeting for consideration, the persons named in the enclosed form of proxy and acting thereunder will have discretion to vote on such matters in accordance with their best judgment.

Any proxy given may be revoked by the person giving it at any time before it is voted. Proxies may be revoked by (i) filing with the Secretary of the Company, at or before the taking of the vote at the Annual Meeting, a written notice of revocation bearing a later date than the proxy, (ii) duly executing a later dated proxy relating to the same shares of Common Stock and delivering it to the Secretary of the Company at or before the taking of the vote at the Annual Meeting or (iii) attending the Annual Meeting and voting in person (although attendance at the Annual Meeting will not in and of itself constitute a revocation of a proxy). Any written notice of revocation or subsequent proxy should be sent so as to be

delivered to Matria Healthcare, Inc., 1850 Parkway Place, Marietta, Georgia 30067, Attention: Secretary, or hand delivered to the Secretary of the Company at or before the taking of the vote at the Annual Meeting.

The Company will bear the cost of the solicitation of proxies from its stockholders. In addition to solicitation by use of the mails, proxies may be solicited by directors, officers and employees of the Company in person or by telephone or other means of communication. Such directors, officers and employees will not be additionally compensated, but may be reimbursed for out-of-pocket expenses incurred in connection with such solicitation. Arrangements also will be made with custodians, nominees and fiduciaries for the forwarding of proxy solicitation materials to beneficial owners of shares held of record by such custodians, nominees and fiduciaries, and the Company will reimburse such custodians, nominees and fiduciaries for reasonable expenses incurred in connection therewith. In addition, D. F. King & Co., Inc. will assist in the solicitation of proxies by the Company for a fee of \$5,500, plus reimbursement of reasonable out-of-pocket expenses.

Quorum

The presence, either in person or by properly executed proxies, of the holders of a majority of the outstanding shares of the Company's Common Stock is necessary to constitute a quorum at the Annual Meeting. Abstentions and shares held by a broker as nominee (i.e., in street name) that are represented by proxies at the Annual Meeting, but that the broker fails to vote on one or more matters as a result of incomplete instructions from the beneficial owner of the shares (broker non-votes), also will be treated as present for quorum purposes.

Vote Required

The Company's stockholders are entitled to one vote at the Annual Meeting for each share of Common Stock held of record by them on the Record Date. The affirmative vote of the holders of a plurality of the shares of Common Stock present in person or represented by proxy at the Annual Meeting is required to elect the Class I and Class II directors. The affirmative vote of a majority of the shares of Common Stock present in person or represented by proxy and entitled to vote at the Annual Meeting is required to approve and adopt the 2005 Stock Purchase Plan, the amendments to the 2004 Stock Incentive Plan and the 2005 Directors' Non-qualified Stock Option Plan. The affirmative vote of the holders of a majority of the outstanding shares of Common Stock entitled to vote at the Annual meeting is required to approve the amendment to the Company's Certificate of Incorporation and the amendment to the Certificate of Incorporation of Matria Women's and Children's Health, Inc. Votes may be cast for or withheld from each nominee for Class I and II directors, and for, against or abstain as to approval of the 2005 Stock Purchase Plan, the amendments to the 2004 Stock Incentive Plan, the 2005 Directors' Non-qualified Stock Option Plan, and the amendments to the Company's Certificate of Incorporation and the Certificate of Incorporation of Matria Women's and Children's Health, Inc. Under applicable Delaware law, broker non-votes represented at the meeting, but with respect to which such broker or nominee is not empowered to vote on a particular proposal, and abstentions will have no effect on the vote for the election of Class I and II directors. Abstentions will have the effect of a vote against approval of the 2005 Stock Purchase Plan, the amendments to the 2004 Stock Incentive Plan and the 2005 Directors' Non-qualified Stock Option Plan, while broker non-votes will have no effect on the outcome of such proposals. Abstentions and broker non-votes will have the effect of a vote against the proposed amendment to the Company's Certificate of Incorporation and the proposed amendment to the Certificate of Incorporation of Matria Women's and Children's Health, Inc.

I. ELECTION OF DIRECTORS

Background

Under the Company's Certificate of Incorporation, the Board of Directors is divided into three classes, with approximately one-third of the directors standing for election each year. The three Class I nominees for election this year are Guy W. Millner, Carl E. Sanders and Thomas S. Stribling. Each has consented to serve for an additional term expiring in 2008. Kaaren J. Street has been nominated to serve as an additional Class II director. She has consented to serve for a term expiring in 2006. If any director is unable to stand for election, the Board of Directors may, by resolution, provide for a lesser number of directors or designate a substitute. In the latter event, shares represented by proxies may be voted for a substitute director.

The Board of Directors recommends a vote FOR the Class I and Class II nominees set forth below.

CLASS I NOMINEES FOR THE TERM EXPIRING IN 2008

Guy W. Millner, age 69, has been a director of the Company since October 4, 2000. Mr. Millner is Chairman of Assurance America Corporation, a public non-standard auto insurance company. Until the fall of 1997, he was Chairman of Norrell Corporation, a staffing services and outsourcing firm, which he founded in 1961. He served as a director of Norrell Corporation from 1997 until July 1999, at which time Norrell Corporation merged with Spherion Corporation.

Carl E. Sanders, age 79, has served as a director of the Company since the merger of Healthdyne Maternity Management and Tokos Medical Corporation, and previously served as a director of Healthdyne from 1986 until the merger. Mr. Sanders, a former governor of the State of Georgia, is Chairman of Troutman Sanders LLP, an Atlanta-based law firm that provides legal services to the Company.

Thomas S. Stribling, age 62, has served as a director of the Company since May 18, 2000. Mr. Stribling has been President and Chief Executive Officer of Therics, Inc., a tissue engineering specialist offering a variety of orthobiologic products since May 6, 2003. From September 1, 2002, to April 30, 2003, Mr. Stribling was President and Chief Executive Officer of DermaCo, Inc., a development stage dermatology company, and was an entrepreneur and private investor from September 1999 to September 2001. From 1998 to September 1999, he was President, Chief Executive Officer and a board member of Scandipharm, Inc., a privately held pharmaceutical company. From 1997 to 1998, he was Vice Chairman and Chairman of the Advisory Board of Legacy Securities Corporation, an investment banking and securities group, and from 1994 to 1996, he was President of UCB Pharma, Inc., a division of a Belgian-based pharmaceutical company.

CLASS II NOMINEE FOR THE TERM EXPIRING IN 2006

Kaaren J. Street, age 58, is the President of K Street Associates, Inc., a business development consulting practice in Washington, D.C. In addition, since August 3, 2003, Ms. Street has served in the Bush Administration as the Associate Deputy Administrator for Entrepreneurial Development at the U.S. Small Business Administration. From April 1, 2001, to August 2003, Ms. Street served as Vice President of Small Business and Urban Initiatives at Enterprise Florida, Inc., a public private partnership responsible for economic development and international trade for the State of Florida, and from January 1997 to January 2001, Ms. Street was Vice President for Diversity Business Enterprise at the Burger King Corporation.

CLASS II DIRECTORS CONTINUING IN OFFICE UNTIL 2006

Frederick E. Cooper, age 63, was elected to the Board on October 22, 2002. Since January 1998, Mr. Cooper has been Chairman of Cooper Capital, LLC, a private investment firm that he founded. Prior to joining Cooper Capital, Mr. Cooper was Chairman and Chief Executive Officer of CooperSmith, Inc., a producer and distributor of baked goods, which was sold to The Earthgrains Company, now Sara Lee Corporation, in January 1998. Prior thereto, Mr. Cooper served for 16 years with Flowers Industries, Inc., a Fortune 500 food company, holding the positions of President and Vice Chairman and Executive Vice President and General Counsel. Mr. Cooper is a director of Logility, Inc.

Wayne P. Yetter, age 59, was elected to the Board on June 3, 2004. Mr. Yetter is the founder of BioPharm Advisory, LLC and since November 2004 has served as President and Chief Executive Officer of Odyssey Pharmaceuticals, Inc., the specialty pharmaceuticals business of Pliva d.d., a Croatia based pharmaceuticals group. Mr. Yetter served as Chairman of the Board of Directors and Chief Executive Officer of Synavant Inc., a pharmaceutical customer relationship management solutions company from 2000 to November 2004. From 1999 to 2000, Mr. Yetter served as Chief Operating Officer at IMS Health, Inc., which provides information services for the

healthcare industry. From 1997 to 1999, he served as President and Chief Executive Officer of Novartis Pharmaceuticals Corporation. From 1994 to 1997, he served as President and Chief Executive Officer of Astra Merck, Inc. From 1991 to 1994, Mr. Yetter served as General Manager and then President of Astra Merck, a division of Merck & Co. Mr. Yetter currently serves on the Board of Directors of Transkaryotic Therapies, Inc., Noven Pharmaceuticals, Inc. and Maxim Pharmaceuticals, Inc.

Frederick P. Zuspan, M.D., age 83, has served as a director of the Company since the Merger Date and previously served as a director of Healthdyne from 1993 until the Merger. Dr. Zuspan, who has been a physician since 1951, has been Professor and Chairman Emeritus, Department of Obstetrics and Gynecology at the Ohio State University College of Medicine since July 1991 and Editor-in-Chief Emeritus of the American Journal of Obstetrics and Gynecology since 2003, Editor-In Chief from 1991 to 2003, and an editor since 1969. From 1987 to 1991 Dr. Zuspan was Professor of the Ohio State University College of Medicine and was Professor and Chairman of the Department of Obstetrics and Gynecology at the Ohio State University College of Medicine from 1975 to 1987 at the University of Chicago, Pritzker School of Medicine from 1966 to 1975, and at the Medical College of Georgia from 1960 to 1966.

CLASS III DIRECTORS CONTINUING IN OFFICE UNTIL 2007

Parker H. Petit, age 65, has served as Chairman of the Board of the Company since the formation of the Company through the merger (the Merger) of Healthdyne Maternity Management, a division of Healthdyne, Inc. (Healthdyne) and Tokos Management Corporation on March 8, 1996 (the Merger Date) and as Chief Executive Officer since October 5, 2000, and as President and Chief Executive Officer from October 5, 2000, to February 22, 2003. In addition, he served as a member of the three-person Office of the President during a brief period in 1997. Mr. Petit was the founder of Healthdyne and served as its Chairman of the Board of Directors and Chief Executive Officer from 1970 until the Merger. Mr. Petit is also a director of Intelligent Systems Corp. and Logility, Inc.

Joseph G. Bleser, age 59, has served as a director of the Company since October 19, 2004. Mr. Bleser became a financial consultant serving public and private companies in the healthcare and technology industries in 1998, most recently acting as interim Chief Financial Officer, Treasurer and Secretary of Transcend Services, Inc., a provider of medical transcription services, from January 1, 2004, to April 4, 2005. Prior to 1998, Mr. Bleser served for over 20 years as Chief Financial Officer for several public companies in the healthcare and technology industries, including HBO & Company, Allegiant Physician Services, Inc., and Healthcare.com Corporation. Mr. Bleser also formerly served on the Board of Directors of Healthcare.com Corporation and Quovadx, Inc. Mr. Bleser is a licensed Certified Public Accountant with ten years of public accounting experience at an international public accounting firm.

Donald W. Weber, age 68, has served as a director of the Company since May 18, 2000. Mr. Weber is a private investor. He was President and Chief Executive Officer of Viewstar Entertainment Services, Inc., a distributor of satellite entertainment systems, from August 1993 until November 1997. Prior thereto, from 1987 to 1991, he was President and Chief Executive Officer of Contel Corporation, a telecommunications supplier, which was sold in 1991 to GTE Corp.

Morris S. Weeden, age 85, has served as a director of the Company since the Merger Date and previously served as a director of Healthdyne from 1987 until the Merger. Mr. Weeden, who is retired, was Vice Chairman Board of Directors of Morton Thiokol Inc., a salt, chemical, household and aerospace products manufacturer, from March 1980 to December 1984. Previous positions held by Mr. Weeden include Executive Vice President of Morton Norwich Products, Inc. in charge of pharmaceutical operations, President of Morton International, a pharmaceutical division of Morton Norwich Products, Inc., and President of Bristol Laboratories, a pharmaceutical division of Bristol Myers Corp.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information as to the beneficial ownership of shares of the Company's Common Stock as of March 31, 2005, adjusted for the three-for-two split effective February 4, 2005 by (i) all stockholders known by the Company to be the beneficial owners of more than five percent of its Common Stock, (ii) each director and nominee of the Company, (iii) each executive officer named in the Executive Compensation section below, and (iv) all executive officers and directors as a group. Unless otherwise indicated, the holders listed below have sole voting and investment power with respect to all shares beneficially owned by them.

Name of Beneficial Owner	Amount and Nature of Beneficial	
	Ownership (1)	Percent of Class (2)
RS Investment Management Co. LLC (3)	815,185	5.0%
George R. Hecht (3)	815,185	5.0%

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Wells Fargo & Company (4)	948,636	5.9%
Wells Capital Management Incorporated (4)	836,526	5.2%
Wellington Management Company, LLP (5)	977,338	6.0%
Parker H. Petit (6)	1,180,572	7.3%
Thomas S. Hall (7)	127	
Roberta L. McCaw (8)	41,394	
Stephen M. Mengert	-0-	
Yvonne V. Scoggins (9)	54,249	
Joseph G. Bleser (10)	3,507	
Frederick E. Cooper (11)	10,312	
Guy W. Millner (12)	19,687	
Carl E. Sanders (13)	62,087	
Kaaren J. Street	-0-	
Thomas S. Stribling (14)	35,842	
Donald W. Weber (15)	41,614	
Morris S. Weeden (16)	51,562	
Wayne P. Yetter (17)	5,000	
Frederick P. Zuspan (18)	14,911	
All current executive officers and directors As a group (16 persons)	1,588,150	9.9%

Less than 1%

- (1) Under the rules of the Securities and Exchange Commission (the SEC), a person is deemed to be a beneficial owner of a security if he or she has or shares the power to vote or to direct the voting of such security (voting power) or the power to dispose or to direct the disposition of such security (investment power). A person is also deemed to be a beneficial owner of any securities of which that person has the right to acquire beneficial ownership within 60 days as well as any securities owned by such person's spouse, children or relatives living in the same house. Accordingly, more than one person may be deemed to be a beneficial owner of the same securities.
- (2) Based on 16,034,006 shares of Common Stock outstanding on March 31, 2005. With respect to each person or group in the table, assumes that such person or group has exercised all options, warrants and other rights to purchase Common Stock which he or she beneficially owns and which are exercisable within 60 days and that no other person has exercised any such rights.
- (3) The number of shares owned is based on information contained in a report on Schedule 13G filed with the SEC on February 14, 2005. The address of RS Investment Management Co. LLC (RS Investment) is 388 Market Street, Suite 200, San Francisco, California 94104. According to the 13G, Mr. Hecht is a control person of RS Investment.
- (4) The number of shares owned is based on information contained in a report on Schedule 13G filed with the SEC on January 21, 2005. The address of Wells Fargo & Company is 420 Montgomery Street, San Francisco, California 94104 and the address of Wells Capital Management Incorporated is 525 Market Street, 10th Floor, San Francisco, California 94105.
- (5) The number of shares owned is based on information contained in a report on Schedule 13G filed with the SEC on February 14, 2005. The address of Wellington Management Company, LLP (WMC) is 75 State Street, Boston, Massachusetts 02109. According to its Schedule 13G, WMC, in its capacity as investment adviser, may be deemed to beneficially own 991,700 shares of the Company's Common Stock, which shares are held of record by clients of WMC. WMC reports that it has no power to vote or direct the vote of such shares and shared power to dispose or direct the disposition of such shares, while its clients have the right to receive, or direct the receipt of, dividends from, or proceeds from the sale of, such shares.
- (6) Represents 768,657 shares owned by Mr. Petit, 68,832 shares held by Petit Investments Limited Partnership, 3,750 shares held by Petit Grantor Trust, 4,770 shares owned by his spouse, and 334,563 shares which are subject to purchase upon exercise of options exercisable within 60 days.
- (7) Represents 127 shares owned by Mr. Hall.
- (8) Represents 567 shares owned by Ms. McCaw, and 40,827 shares which are subject to purchase upon exercise of options exercisable within 60 days.
- (9) Represents 6,522 shares owned by Ms. Scoggins and 47,727 shares which are subject to purchase upon exercise of options exercisable within 60 days.
- (10) Represents 7 shares owned by Mr. Bleser and 3,500 shares which are subject to purchase upon exercise of options exercisable within 60 days.
- (11) Represents shares which are subject to purchase upon exercise of options exercisable within 60 days.
- (12) Represents shares which are subject to purchase upon exercise of options exercisable within 60 days.

- (13) Represents 27,400 shares owned by Mr. Sanders and 34,687 shares which are subject to purchase upon exercise of options exercisable within 60 days.
- (14) Represents 8,655 shares owned by Mr. Stribling and 27,187 shares which are subject to purchase upon exercise of options exercisable within 60 days.
- (15) Represents 5,625 shares owned by Mr. Weber, 14,427 shares owned by a partnership in which Mr. Weber has an interest and 21,562 shares which are subject to purchase upon exercise of options exercisable within 60 days.
- (16) Represents 5,625 shares owned by Mr. Weeden and 45,937 shares which are subject to purchase upon exercise of options exercisable within 60 days.
- (17) Represents shares which are subject to purchase upon exercise of options exercisable within 60 days.
- (18) Represents 325 shares owned by Dr. Zuspan, 187 shares held by Zuspan & Associates Partnership, 5,680 shares owned by Dr. Zuspan's spouse and 8,719 shares which are subject to purchase upon exercise of options exercisable within 60 days.

Corporate Governance

We have established corporate governance practices designed to serve the best interests of the Company and our stockholders. The Company is in compliance with the current corporate governance requirements imposed by the Sarbanes-Oxley Act of 2002, the rules and regulations of the Securities and Exchange Commission (SEC) and the listing requirements of the Nasdaq National Market (Nasdaq). The Company has adopted a Code of Ethics that applies to all of its directors, executive officers and employees. If any waiver of this Code is granted to an executive officer or director, the waiver will be disclosed in an SEC filing on Form 8-K. The Company's current Code of Business Conduct and charters for certain committees of the Board of Directors were filed as exhibits to the Company's annual report on Form 10-K for the year ended December 31, 2003, and are incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

Set forth below is information regarding the meetings of the Board of Directors during fiscal year 2004 and a description of the Board's standing committees.

Board Committees, Attendance and Communications with Board of Directors

In addition to an executive committee and other single purpose committees established from time to time to assist the Board of Directors with particular tasks, the Company's Board of Directors has the following standing committees: a Compensation Committee, an Audit Committee and a Corporate Governance and Nominating Committee.

The Compensation Committee is composed of Frederick P. Zuspan, M.D., Frederick E. Cooper, Thomas S. Stribling and Wayne P. Yetter. All members of the Compensation Committee are independent as required by Nasdaq. The Compensation Committee is responsible for the recommendation and approval of salaries of executive officers and the review and approval of incentive plans, including stock option and related programs, and the grant of awards under such plans. The Compensation Committee held seven meetings during the year ended December 31, 2004.

The Audit Committee is composed of Donald W. Weber, Joseph G. Bleser, Guy W. Millner and Morris S. Weeden. The Board of Directors has determined that all members of the Audit Committee are independent in accordance with the listing standards of Nasdaq and SEC rules governing audit committees. The Board of Directors has determined that each of Donald W. Weber and Joseph G. Bleser have the accounting and related financial management expertise to be an audit committee financial expert as that term is defined by the SEC and has designated each of Messrs. Weber and Bleser as a financial expert. Pursuant to its written charter, a copy of which was attached to the proxy statement for the 2004 Annual Meeting of Stockholders, the Audit Committee evaluates the independence and performance of the Company's independent accountants, handles relations with the Company's independent accountants and evaluates the integrity of the Company's financial reporting process and its policies and procedures relating to internal accounting functions and controls. The Audit Committee pre-approves audit and non-audit services to be performed by the Company's independent auditors in accordance with the Sarbanes-Oxley Act of 2002 and the regulations thereunder. The Audit Committee held nine meetings during the year ended December 31, 2004.

The Corporate Governance and Nominating Committee (the Governance Committee) was established on February 20, 2003 to replace the former Nominating Committee. The Governance Committee is composed of Frederick E. Cooper, Guy W. Millner, Carl E. Sanders and Donald W. Weber. The Board of Directors has determined that all of the members of the Governance Committee are independent in accordance with the listing standards of Nasdaq rules governing governance committees. The Governance Committee identifies, screens and recommends candidates for appointment to the Board of Directors for consideration by the full Board of Directors and by the stockholders of the Company, evaluates and makes recommendations to the full Board of Directors concerning the number and accountability of Board committees and assignments to such committees, develops and recommends to the Board of Directors for its approval a set of corporate governance guidelines, periodically reviews and makes

recommendations to the full Board of Directors compensation, orientation, continuing education and retirement policies for directors, and reviews issues and developments relating to corporate governance and makes recommendations related thereto to the full Board of Directors. The Governance Committee will consider a candidate for director proposed by a stockholder. A candidate must be highly qualified and be both willing and expressly interested in serving on the Board of Directors. A stockholder wishing to propose a candidate for the Governance Committee's consideration should forward the candidate's name and information about the candidate's qualifications to Matria Healthcare, Inc., 1850 Parkway Place, Marietta, Georgia 30067, Attention: Corporate Secretary. Additional information concerning nomination procedures is included under Corporate Governance and Nominating Committee below. The Governance Committee held three meetings during the year ended December 31, 2004.

During the year ended December 31, 2004, the Board of Directors held eight meetings. Each of the incumbent directors who served as directors during 2004 attended more than 75% of the total number of Board meetings and meetings of committees of which he was a member during 2004. The Board of Directors has adopted a policy that all directors on the Board of Directors are expected to attend annual meetings of its stockholders. All members of the Company's Board of Directors at the time of the 2004 Annual Meeting of the stockholders attended the 2004 Annual Meeting of Stockholders.

The Company encourages communication with the Board and the Board provides a process for stockholders to send communications to the full Board or any of the individual directors. Any stockholder who wishes to communicate with the Board or with any particular director, including any non-management director, may send a letter to the Secretary of the Company at 1850 Parkway Place, 12th Floor, Marietta, Georgia 30067. Any communication should indicate that the sender is a stockholder of the Company and clearly specify that it is intended to be made to the entire Board or to one or more particular director(s). After receipt by the Secretary, correspondence will be forwarded to the Board or to the particular individual director indicated for review and consideration.

Executive Compensation

The following table sets forth compensation paid to the Company's Chief Executive Officer and each executive officer named in this section (the Named Executive Officers) for their services in all capacities to the Company and its subsidiaries in fiscal years 2004, 2003 and 2002:

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation		Long-term Compensation Awards Securities Underlying	All Other Compensation
		Salary (\$)	Bonus (\$)	Options (#)(1)	(\$)(2)
Parker H. Petit Chairman of the Board and Chief Executive Officer	2004	\$ 484,273	\$ 276,701	58,126	\$ 189
	2003	462,701	58,131	127,253	189
	2002	447,861	-0-	36,503	203,130
Thomas S. Hall (3) President and Chief Operating Officer	2004	\$ 359,317	\$ 205,304	33,751	\$ 6,189
	2003	343,311(4)	108,131	40,500	6,189
	2002	63,134	-0-	150,000	211
Stephen M. Mengert (5) Vice President-Finance and Chief Financial Officer	2004	\$ 241,332	\$ 102,039	11,250	\$ 6,151
	2003	230,582	38,285	15,000	6,146
	2002	72,693	-0-	30,000	2,534
Roberta L. McCaw Vice President-Legal, General Counsel and Secretary	2004	\$ 230,582	\$ 97,180	9,000	\$ 6,145
	2003	222,383	45,000	32,382	6,142
	2002	207,870	25,186	4,711	84,337
Yvonne V. Scoggins Vice President-Financial Planning and Analysis	2004	\$ 209,719	\$ 113,644	9,000	\$ 1,209,331
	2003	192,660	38,727	40,136	6,118
	2002	187,068	22,560	4,286	96,292

(1) Number of shares adjusted for 3-for-2 stock split effective February 4, 2005.

(2) Details of amounts reported in All Other Compensation column are provided in the table below.

(3) Mr. Hall was elected Executive Vice President and Chief Operating Officer on October 22, 2002 and promoted to President and Chief Operating Officer on February 22, 2003.

(4) Includes a \$65,000 non-contingent bonus that was payable to Mr. Hall pursuant to his initial offer of employment. In the proxy for the 2004 Annual Meeting, this amount was included under salary.

(5) Mr. Mengert was elected Vice President-Finance and Chief Financial Officer on September 3, 2002.

Item	Year	Mr. Petit	Mr. Hall	Mr. Mengert	Ms. McCaw	Ms. Scoggins
Officer Term Life Insurance	2004	\$ 189	\$ 151	\$ 145	\$ 145	\$ 125
	2003	189	189	146	142	118
	2002	29,409	211	209	195	175
Split Dollar Insurance Premium Value (A)	2004	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
	2003	-0-	-0-	-0-	-0-	-0-
	2002	173,721	-0-	-0-	78,142	90,117
401(k) Matching Contributions	2004	\$ -0-	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000
	2003	-0-	6,000	6,000	6,000	6,000
	2002	-0-	-0-	2,325	6,000	6,000
Executive SERP(B)	2004	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 1,203,206
	2003	-0-	-0-	-0-	-0-	-0-
	2002	-0-	-0-	-0-	-0-	-0-
Total All Other Compensation	2004	\$ 189	\$ 6,189	\$ 6,151	\$ 6,145	\$ 1,209,331
	2003	189	6,189	6,146	6,142	6,118
	2002	203,130	211	2,534	84,337	96,292

(A) See Termination of Employment and Change-in-Control Arrangements.

(B) Represents payment of benefits under the Supplemental Executive Retirement Plan. See Termination of Employment and Change-in-Control Arrangements.

Stock Options

The following table contains information concerning the grant of stock options to the Chief Executive Officer and each executive officer named in the Executive Compensation table during 2004:

Option Grants in Last Fiscal Year

Name	Number of Securities Underlying Options Granted (#)(2)	Individual Grants % of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh) (2)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (1)	
					5% (\$)	10% (\$)
Parker H. Petit	58,216(3)	9.7%	\$ 16.79	08/11/2014	\$ 613,761	\$ 1,555,390
Thomas S. Hall	33,751(3)	5.6%	\$ 16.79	08/11/2014	\$ 356,382	\$ 903,141
Stephen M. Mengert	11,250(3)	1.8%	\$ 16.79	08/11/2014	\$ 118,790	\$ 301,038
Roberta L. McCaw	9,000(3)	1.5%	\$ 16.79	08/11/2014	\$ 95,032	\$ 240,830
Yvonne V. Scoggins	9,000(3)	1.5%	\$ 16.79	08/11/2014	\$ 95,032	\$ 240,803

- (1) Based on actual option term and annual compounding. These amounts are calculated pursuant to applicable requirements of the SEC and do not represent a forecast of the future appreciation of the Company's Common Stock.
- (2) Number of shares and exercise price adjusted for 3-for-2 split effective February 4, 2005.
- (3) These options to purchase the Company's Common Stock were granted on August 11, 2004, as follows: a total of 33,751 shares under the Company's 1997 Incentive Stock Option Plan, 11,250 shares from the Company's 2000 Stock Incentive Plan, 9,000 shares from the 2001 Stock Incentive Plan, 9,000 shares from the 2002 Stock Incentive Plan and 58,215 shares from the Company's 2004 Stock Incentive Plan. Vesting accrues on each anniversary date beginning August 11, 2005, at 20% per year.

Stock Option Exercises

The following table sets forth information with respect to the Chief Executive Officer and the executive officers named in the Executive Compensation table concerning the exercise of options in 2004 and unexercised options held as of the end of the fiscal year:

Name	Aggregated Option Exercises in Last Fiscal Year and FY - End Option Values		Number of Securities Underlying Unexercised Options at Fiscal Year End(#)(1)		Value of Unexercised In-the- Money Options at Fiscal Year End(\$)(2)	
	Shares Acquired on	Value Realized (Market Price at exercise less exercise price)	Exercisable	Unexercisable	Exercisable	Unexercisable
Parker H. Petit	Exercise(#)(1) -0-	-0-	320,763	375,586	\$ 4,983,076.88	\$ 5,519,651.24
Thomas S. Hall	58,907	\$ 876,873	-0-	166,153	-0-	2,971,479.50
Stephen M. Mengert	9,999	\$ 176,142	-0-	46,251	-0-	827,007.87
Roberta L. McCaw	-0-	-0-	38,759	47,438	517,491.87	651,207.19
Yvonne V. Scoggins	-0-	-0-	45,403	52,916	547,402.44	731,311.02