FINAL TRANSCRIPT

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PRESENTATION

Operator

Welcome to the third-quarter earnings conference call. At this time all participants are in a listen-only mode and later we will conduct a question-and-answer session, with the instructions being given at that time. (OPERATOR INSTRUCTIONS). As a reminder, this conference is being recorded. And I would now like to turn the conference over to our host, Ms. Mary Morrisey-Gabriel. Please go ahead.

Mary Morrisey-Gabriel - *Gentiva Health Services, Inc. - SVP and Chief Marketing Officer*

Thank you very much and good morning. Thank you very much for joining us this morning. I'm Mary Morrisey-Gabriel, Senior Vice President and Chief Marketing Officer for Gentiva Health Services, and this is Gentiva's third quarter 2005 earnings call. We hope that each of you have had a chance to review the Company's third-quarter earnings reports which we released after close of market yesterday. In a moment I'll turn the call over to our Company's CEO, Ron Malone, for remarks on Gentiva's performance during the third quarter, and to John Potapchuk, our Chief Financial Officer, for a closer look at our financial results and outlook. Also joining us for the call and the question-and-answer period is Al Perry, our President and COO, as well as other key executives.

Let me remind participants on this morning's call that comments made by Gentiva executives and associates other than historical information should be considered forward-looking and are subject to various risk factors and uncertainties as outlined in our filings with the Securities and Exchange Commission. Accordingly, actual results may differ materially from those anticipated in any forward-looking projections or comments on this call today. Please refer to the forward-looking statements in our news release issued last evening, as well as similar language in our most recent 10-K. Our call today will be consistent with the Securities and Exchange Commission's Regulation FD. As such, we strongly encourage participants on this call to present their questions during today's question-and-answer period, because under Regulation FD, we have certain limitations on comments that can be made in individual inquiries.

Today's call will also conform to the SEC's Regulation G, which requires public companies that disclose or release non-GAAP financial measures to include in that release or disclosure a presentation of the most directly-comparable GAAP financial measure, as well as reconciliation between the comparable GAAP and non-GAAP financial measures. Because of this, we will not discuss non-GAAP financial measures on this call, other than what is set forth in our earnings release.

In accordance with Regulation G, a transcript of this call will be posted to the web site and available for the next 12 months. Additionally, you may access the earnings call replay for the next seven days. We appreciate your continued interest in Gentiva Health Services.

Now let me turn the call over to Gentiva's CEO, Ron Malone, for comments on the Company's third quarter 2005 performance.

Ron Malone - *Gentiva Health Services, Inc. - Chairman and CEO*

Thanks, Mary. Good morning, everyone, and thanks for joining us. Our third-quarter results reflect the progress we’ve made on operational matters intended to drive higher-margin business, as we have discussed on recent calls, as well as some challenges. Here are some highlights for the quarter and the period leading up to today's call.

Our third-quarter total net revenues increased 10.8% over the prior year period and 11.5% if you exclude a 2004 special item. Our business mix has continued to shift toward Medicare, with revenues from that payer rising more than 28% in the quarter as we turned a growing number of referrals into admissions through a focus on capacity. The increase is over 31% if we exclude the impact of the special Medicare item in the third quarter of 2004. Medicare is now approaching a third of our total company revenues.

Commercial insurance and other revenues were up about 6% in the third quarter due to increases in both CIGNA and non-CIGNA revenues. Last week we amended our national contract with CIGNA for an extended term through early 2009. The new agreement covers home nursing and therapy services, infusion therapies and certain specialty medical equipment such as insulin pumps and wound suction devices.

We generated $19.4 million in cash from operating activities in the third quarter. As a result, cash items and short-term investments were $94.4 million at the close of the third quarter, up about $11 million since the end of the second quarter.

Turning to our Home Healthcare Services segment, our 12.2% increase in revenues and the 28.5% increase in operating contribution came primarily from continued strong Medicare performance, as expected. On the last call, we talked about focusing on several areas -- increasing capacity to accept referrals, our need to improve our return from the investments we've made in Home Healthcare, our drive to achieve better pricing from non-government payers and our need to control costs.

Regarding capacity, we’ve launched a new system for tracking applicants, as well as an enhanced orientation program for clinicians in every branch. And our offices are focused on recruiting clinicians who will be dedicated to Gentiva and productive in serving our patients. Our full-time clinicians are now performing about half of our visits. While we have been successful in recruiting these clinicians, we have to further calibrate the right mix of full-time and per-visit clinicians in each market. We're also seeing some upward pressure on direct costs of labor, so our focus on managed care pricing and the right level of authorized visits is even more important.

In September we announced that one of our specialty programs, Gentiva Safe Strides, had surpassed a milestone of over 10,000 patients treated. At the same time, we issued new and extensive national outcomes data supporting the continued clinical success of this innovative therapy for people with balance problems. As you know, we’ve reported similar positive national outcomes for Gentiva Orthopedics, which has now treated well over 60,000 patients.

For all of 2005, we expect to have added 35 new specialty programs across the United States. This includes eight new programs launched in the third quarter and another five planned for the fourth quarter. These specialized programs have made a significant contribution to our Home Healthcare segment results.

Our specialty programs also contribute to our leadership in clinical excellence and innovation. Gentiva consistently scores higher than the national averages for what we believe are the most important home health quality measures, including hospitalization, use of urgent and unplanned medical care, and one of the new measures, the percentage of patients who remain at home after a homecare episode ends.

We are intensely focused on driving clinical performance. Earlier this year, we implemented a performance improvement program in all of our branches that has generated positive results. We also continue our close collaboration with the national associations, CMS, MedPAC, and other providers to identify better outcomes measures and seek quality care through evidence-based guidelines. The measures that are developed may be used to reward quality and efficiency under a pay-for-performance initiative.

Turning to non-government business in our Home Healthcare segment, we've taken a number of steps to improve our margins and exit managed care contracts that don't meet our profitability threshold. We're working on renegotiating pricing with over a quarter of our managed care payers now and expect to see some impact from those discussions by the first quarter. We also reduced corporate expenses in Home Healthcare operating costs by over $1 million in the third quarter. We reduced headcount in some branches, closed three marginal branches and reduced corporate expenses as well.

Looking at our CareCentrix® segment, the revenue increase in the third quarter included higher CIGNA revenues, primarily from the expanded service we have been providing to New England HMO members since July 1. Operating contribution from CareCentrix has declined since last quarter, primarily due to changes in our TriWest relationship.

The new CIGNA contract announced last week should offer opportunities for geographic expansion. Our pricing in the new agreement is based on pre-negotiated escalators for the three-year period, as well as predicted utilization changes for the capitated portion of the contract. We believe this approach provides more stability in the relationship and better margins than in the past as we restructure our operations to adjust to changes in this business.

We also announced that the new agreement with CIGNA would not include DME and respiratory services. We are moving quickly to make adjustments in our CareCentrix operations to “right-size” it for the transaction volumes we expect in 2006. We are also using this as an opportunity to reevaluate and streamline our operating processes.

The continued shift from risk-based closed-panel models to PPO and Open Access plans requires changes in both our offerings and the way we deliver them. As a result, we are adjusting our market strategy to focus on delivering broader access and more streamlined delivery through our regional care centers using an integrated technology solution. We believe that these solutions, coupled with our high standards of clinical oversight, will enable CareCentrix to gain greater traction in the market. We will use our sales force to help us with a concentrated effort on pull-through business in markets where that makes sense. We also expect our third-party provider network to remain intact despite lower volumes in certain product areas.

We continue to work with members of Congress to maintain fair reimbursement. We were pleased to see yesterday's CMS announcement recommending a 2.8% market basket increase for home healthcare reimbursements in 2006. This increase is important as we confront higher costs of employment, including wages, fuel and other factors, and as we put more resources into specialty programs which can bring better, more cost-effective care to many elderly Americans.

We’ll also continue to focus on establishing relationships with commercial carriers who enter into Medicare Advantage programs. Given our long-standing service to the elderly and our extensive managed care experience, we believe we have an advantage as the senior population continues to migrate to these programs.

We know how to work with both government and commercial payers and we know how to deliver the services they need for their members. We'll participate in Medicare Advantage as long as the business meets our margin requirements and generates desirable clinical outcomes by adhering to our LifeSmart care protocols.

Before I close, I'd also like to say a word about the efforts of Gentiva associates in South Florida as they deal with the aftermath of Hurricane Wilma. As they did last year, our people have once again put their personal challenges aside to focus on caring for our patients. The situation in South Florida remains difficult due to gas shortages, a lack of electrical power, a loss of cell communications and devastation in certain neighborhoods. We still have some offices which have not yet reopened. Our emergency plans are in effect in this region and our people are doing a remarkable job. We will give a complete update on our fourth-quarter call.

I would now like to turn the discussion over to our CFO, John Potapchuk, for additional comments on our financial performance as well as a review of our financial outlook for the rest of the year and 2006. John?

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

Thanks, Ron, and welcome everyone. I hope all of you have had a chance to review yesterday's news release, since my remarks will focus more on the color behind the results.

Before I discuss Gentiva's performance in more detail, I'd like to briefly mention that there are several items which affect our presentation format and the comparability of income statements for the 2005 and 2004 periods. You'll find more information on these items in the notes to our earnings news release.

Our focus on higher-margin business has continued to affect the business mix. In the third quarter of 2005, Medicare represented almost 31% of total net revenues versus less than 27% in the prior year period. At the same time, the revenue contribution from our two other payer categories, Medicaid and Local Government and Commercial Insurance and Other, declined more than two percentage points between the two periods. CIGNA's contribution was down about seven-tenths of a percent to 29.5% of total net revenues in the third quarter of 2005.

Our third quarter 2005 gross profit was approximately $5.5 million higher than the same period of 2004. As a percentage of revenues, gross profit margin decreased about 1.2 percentage points between the third quarters of 2004 and 2005. While the Home Healthcare Services segment contributed about eight-tenths of a percentage point increase to the total company gross profit, this was more than offset by a 1.7% decline that resulted from the CareCentrix business and three-tenths of a percentage point due to a 2004 special item.

Turning to SG&A, our expenses were up about $4.8 million in the third quarter, due primarily to incremental costs in the Home Healthcare Services segment, including about $1.5 million in costs associated with the Heritage Home Care operation, about $2.5 million for investments to service increased Medicare volume and expand and managed specialty services, about $800,000 due to additional investments in selling and patient care coordination resources, and also certain severance and other costs relating to the closing of some branch offices. These higher expenses were offset somewhat by about a $400,000 reduction in corporate general and administrative expenses for the quarter.

Our pre-tax income as a percentage of net revenues was about 3.2% in the third quarter of 2005, which was comparable to the prior period, but below the 3.4% in the same period a year earlier. Excluding the special item, the 2004 figure would have been about 2.9%. Turning to our business segments, the positive contribution to gross margin from our Home Healthcare Services segment was the result of several factors, including strong performance of our specialty programs, the shift in our business mix toward Medicare, increased revenue per Medicare admission as a result of improvements in the training and orientation of our full-time clinicians, and a rate increase in non-Medicare Home Healthcare business. These positive contributions were offset somewhat by an increase in indirect cost.

¶As we continue to address margins, our focus remains on controlling factors that impact the direct cost of our services: wage rates, fuel costs, benefits, and recruiting expense and, of course, the balance between our use of full-time and per diem clinicians. At the same time, we will continue to target opportunities for cost reductions, both at the corporate and operating segment levels.

Turning to the CareCentrix segment, operating margins declined, primarily for two reasons. First, there was a positive adjustment relating to a change in estimated cost in the 2004 period as we completed the reconfiguration of the HME network.And secondly, lower margins in the 2005 period resulted from changes in the TriWest relationship.

During the nine months of 2005, we generated over $9 million in cash from operating activities. For the full year, we expect positive operating cash flow to approach $20 million. As for our balance sheet, the $11 million increase in cash, cash items and short-term investments between the end of the second and third quarters of 2005 was due to positive cash flow from operating activities, partially offset by share repurchases and capital expenditures.

In the third quarter, net accounts receivable decreased by about $100,000 from the end of the second quarter, and our days sales outstanding, or DSO, at October 2, 2005 remained at 59 days, consistent with the end of the second quarter.

Regarding share repurchases, we bought about 66,000 shares of our common stock in the third quarter at a cost of about $1.2 million. Since the beginning of the fourth quarter through yesterday, we have repurchased over 420,000 additional shares at a total cost of about $16.4 million. As of the current date, we have remaining Board authorization to repurchase about 760,000 shares of our outstanding common stock.

Before I end my remarks, I want to make some comments about our financial outlook for 2005 and 2006. The decision to revise our 2005 outlook is based on the several factors mentioned in our news release, including the faster-than-expected reduction in referral activity from the expiring TriWest contract, the direct cost to improve capacity that Ron and I have discussed, and the effect of Hurricane Wilma. As we indicated, we also expect a PRRB settlement in excess of $5 million in the fourth quarter relating to the reopening of our 1999 Medicare cost reports.

Turning to 2006, we have announced a preliminary outlook which reflects net revenues in a range of $880 million to $900 million and pro forma diluted earnings of between $0.83 and $0.92 per diluted share. The pro forma outlook excludes the impact of the new accounting rules related to equity-based compensation, as well as any special items, restructuring charges or acquisitions. It includes the projected impact of changes to our CIGNA relationship, which we expect to result in reductions in net revenues of up to $40 million and diluted earnings per share of between $0.03 and $0.06 compared to fiscal 2005 results. The outlook assumes continued double-digit growth in Medicare volume, driven by further expansion in specialty programs, and increase in Medicare reimbursement rates of about 2.8%, and expansion of Home Healthcare Services margins of between 150 and 200 basis points as compared to the current year-to-date performance.

We expect CareCentrix 2006 performance to be somewhat below fiscal 2005, due to the change in the CIGNA contract and the loss of TriWest, offset somewhat by results in new business development. Our 2006 preliminary outlook also anticipates positive operating cash flow of between $25 (million) and $30 million, up to $15 million in capital expenditures, and depreciation and amortization expense of about $9 million in 2006.

Now, I'd like to turn the call back to Ron before we take your questions. Ron?

Ron Malone - *Gentiva Health Services, Inc. - Chairman and CEO*

Thanks, John. I'd like to briefly update you on our strategy for 2006. Our primary objective is to demonstrate significantly improved financial and operational results that will solidify our leadership position and reward employees, investors and partners who have placed their trust in Gentiva. We will accomplish this by executing on key elements of our strategic plan. Primary strategies include; a continued drive for Medicare growth, expansion of our specialty programs, a focus on capacity and productivity through the right mix of full-time and per diem clinical work force, better pricing from our commercial insurance business, reconfiguration of our CareCentrix business, and achieving excellence in clinical care and customer service by delivering consistency, compassion and superior outcomes.

That sums up our comments for the third quarter and first nine months of 2005. We would now like to take your questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Matthew Ripperger, Citigroup.

Matthew Ripperger - *Citigroup - Analyst*

Just a couple of questions. I think I heard you say, John, that you expect about 150 to 200 basis point expansion in the home health operating margins for next year. I just wanted to make sure I got that right. And secondly, if you could maybe just give a little color as to what your confidence level is that you can achieve that type of margin improvement. That would be great.

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

You heard that correctly. That is our expectation. And I think from a (technical difficulty) what you're starting to see in the third quarter is some improvement in the operating margins on Home Health. I think we moved that up about a half a percentage point from where it was in the second quarter. And I think the continuation of the strategy that we talked about -- which includes the focus on Medicare, changing that business mix and a focus on the elements of direct cost and controlling that -- I think, are going to be the major elements of reaching that goal.

Matthew Ripperger - *Citigroup - Analyst*

How much of that incremental margin improvement would you attribute to mix shift related to just growing the Medicare book of business, versus getting some kind of incremental leverage of your fixed costs?

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

It's a combination. The mix is probably a little bit more significant. Because with that mix, also keep in mind that includes incremental business and specialty programs. And the specialty programs command a higher margin. So, that is really a significant driving force.

Ron Malone - *Gentiva Health Services, Inc. - Chairman and CEO*

I think the mix shift is more significant.

Matthew Ripperger - *Citigroup - Analyst*

The second question I had is you have commented that commercial pricing on the homecare business, not CareCentrix, is starting to turn a little more favorable as some leverage is coming back to you. Can you just give a little more commentary in terms of how that is being received by the commercial payer audience, and where you stand in terms of the potential renewal of some of those types of home nursing commercial contracts?

Ron Malone - *Gentiva Health Services, Inc. - Chairman and CEO*

This is Ron. If you look -- I would say it's fair to say that the provider market has shifted a great deal of emphasis to Medicare in the past few years, since Medicare margins were more attractive. Our view is that the commercial payers have to buy these services. And a good deal of our ability to negotiate fair rates is the discipline it takes to be ready to stand down if we have to in order to be fairly compensated. The fair compensation, Matt, comes in two forms -- one is a fair per-visit rate; and secondly, it is a fair number of visits authorized for service, so that our revenue per admission is not so low that we can't amortize those costs in the right way.

And thus far, there's been a mixed response. In some markets we have terminated agreements; in other markets we have been able -- with other payers in other markets we have been able to raise the pricing. I think, frankly, the effort, I believe, will reward us either way. Because as we are really driving down the discipline to stand tough in this area, for every Medicare admission we are able to substitute for a former managed care admission, we are automatically going to see more margin and more revenue per episode. So, in my mind, we must drive that discipline such that we are either shifting the business increasingly toward Medicare, raising the managed care pricing, or doing both. And our intent would be to do both and expand absolute capacity so that we continue to see nice Medicare growth, but also that we have the best of managed care in the mix.

Matthew Ripperger - *Citigroup - Analyst*

Just as a follow-up and related to that, of your commercial home nursing business, how much can you potentially renegotiate or reconfigure next year?

Ron Malone - *Gentiva Health Services, Inc. - Chairman and CEO*

Well, we have, as I mentioned in my comments, about a quarter of our active contracts in renegotiations right now. Let's call that, say, roughly 100 contracts. It would probably take us -- let's see how to phrase it to you -- like a rolling two quarters to roll through that. So, as we work through the first 100 and we get agreement or we get termination, we will be bringing on elements to the next 100. So, I would say we would be substantially through the process during next year.

Operator

Sheryl Skolnick, Fulcrum Global Partners.

Sheryl Skolnick - *Fulcrum Global Partners - Analyst*

John, I need a little help understanding your very strong cash flow this quarter please. If I -- you've given us the nine months, but if I back out the numbers for the first two months, I think I have it right that you generated about $19.5 million in cash flow this quarter. Your AR appears not to have changed terribly much on the balance sheet sequentially, which you said it's about the same, DSO is about the same. So, one question there is did you or did you not succeed in collecting any funds from TriCare (TriWest)? And if so, did your collection rate in some way, shape or form increase?

The second issue here -- so you might want to take notes -- is as I look at your current liabilities, which are the -- they're a bunch of items on the balance sheet but there's only one category on the cash flow statement. It shows a cash inflow this quarter of about $11.7 million, and it seems to be a very big percentage of that $19.5 (million). But when I look at the balance sheet numbers, I see the balances incurred but not reported. So, as I look at the sort of other liabilities items -- these recruit expenses you've got incurred but not reported and you've got a whole bunch of other things -- but none of them really changed. They totaled $62 million, $61 million in the second quarter. They're $63 million this quarter. And the only other item is sort of payroll and related taxes; that's the only one that changed and that's only $5 million. So, I guess I'm asking the question where did this $11 million of cash inflow come from?

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

Good question, Sheryl. Let me try -- first one on TriWest; let me go to that. We have started to see some good collection performance in TriWest. And just to frame it, normally we don't talk about individual accounts too specifically. But when you look at the first year of that TriWest contract, through the end of June we had collected roughly $4 million of cash and provided significantly more services in that, obviously. This past quarter we collected almost $10 million of cash from TriWest. So, the funds are rolling in. But I will say that there's still a significant receivable outstanding, but we are making very good progress in that area. So, that is number one.

Secondly, on the cash flow and specifically on the current liabilities, really I guess two responses to that. One is kind of an administrative issue. The second one is an accounting issue. And I know in the past you and I have talked about accounting issues, so this will be kind of fun. The administrative one, when you look at our approved payroll and payroll taxes, our process here at Gentiva is we pay administrative payroll once every two weeks. And at the end of the third quarter, that was not a payroll week. So, we had incremental accrued payroll as a result of that. At the end of June, that week was in fact a payroll week. And every two weeks our administrative payroll represents between $5 (million) and $6 million. So, that is going to be a (multiple speakers) portion.

Sheryl Skolnick - *Fulcrum Global Partners - Analyst*

So, I see that, because your payroll accrued went up by $5 million sequentially, from $10 (million) to $15 (million). So, I got that part. Okay, good.

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

Exactly. That's a piece of it. The second piece involves accounting and it relates to overdrafts. Now, we have in our main account, our main cash accounts -- master account, payroll account, lock boxes, etcetera -- we have the ability to go into an overdraft position, which I'd probably take advantage of because, obviously, you can do that; it's not costing us any money to do that. And I generally try to keep about a week's worth of payables outstanding.

At the end of the second quarter -- and you may recall on our second-quarter conference call I had indicated that we had made some significant payments on our current liabilities. Well, rather than taking money out of our invested cash, I just increased our overdrafts temporarily. And now at the end of the third quarter, they're back in a more normal position. The accounting for that is when you -- as you see a change in overdrafts, that has to be reflected as a financing activity on your cash flow statement and the offset goes into operations.

Maybe, Sheryl, one last thing to try to give some clarity. Because when you look at the balance sheet, if you focus on accounts payable, we showed $23.5 million at the end of October. As you said, about $25 (million), I guess, at the end of June, and about $26 (million), let's say, at the end of last year-end. Just to give you a sense. Last year-end, the end of '04, our overdrafts were about $8.5 million. Our real accounts payable was $17 (million). That represented $26 (million). Today our overdrafts are about $7 (million) and our accounts payable are about $17 (million). So, that's the normal flow. At the end of June, we had overdrafts of $13 million and normal accounts payable of $12 (million). So, we had made advanced payments through by increasing overdraft, but it showed up as a positive cash in financing and a negative cash in operating at the end of the year. And that just turned around and now we're back into a normal situation.

Sheryl Skolnick - *Fulcrum Global Partners - Analyst*

Okay. So, if I want to look at this as the cash that the business actually generated as opposed to the way you have to account for the cash that the business actually generated, what I really ought to do is go down to the financing activities line, take that change in book overdrafts, and look at that in comparison to the change in current liabilities. Because then -- so, then I will get the payroll of about $5 million that will come in there. And it just -- okay. So, you are managing your payables and your liabilities and all of the rest of that, and it's generating something above the cash from operating activities line, and then coming off in some way, shape or form or being balanced against that in the financing activities. So, why is that real operating cash flow? It means you're good at your job and you should keep it, but I'm not sure it means that the business is actually generating more cash.

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

And maybe the thing I commented on, and maybe this is why we show year-to-date cash flow statements rather then on the quarter -- part of what this means is that the operating cash in the third quarter is not as good as $19 million, but it's not as bad as six months as the negative $9 (million).

Sheryl Skolnick - *Fulcrum Global Partners - Analyst*

I would agree with that statement and that makes a lot of sense and I understand it. And it's still, I think, on a year-over-year basis I have got to just look at it -- yes -- it's down significantly from last year. So, this is, obviously, less generous a year. The DSOs don't seem to be down -- up quite as much. So, I guess I'm just a little bit concerned about the ability of the business to generate cash. There were some unusual items last year -- that's right -- because you had some settlements from Medicare.

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

That was $nine (million) or $10 million. And that flowed all the way down to cash from operating activities.

Sheryl Skolnick - *Fulcrum Global Partners - Analyst*

I get that part. So, one of the key concerns that I have going forward is on your guidance, we had this discussion before about your fourth quarter being a tough comp. I will remind myself that it's a 14 week quarter in '04, it's a 13 week quarter this year. Clearly, you have guided down to accommodate some of the outstanding issues that we would be worried about because of weather and other items. But it seems to me that if you look at the guidance range of 73 to 78, and then you look at 83 to 92, you're looking for mid-teens growth to possibly as much as 19 growth from the bottom-end to the bottom-end, from the top-end to the top-end. And I guess my concern is it feels -- it seems like that's very aggressive, especially since we couldn't quite figure out how you were going to do as much as you needed to do in the fourth quarter of this year. Now you're telling us that guidance was indeed too high. And now you're coming to us again and saying that next year looks better than this year. But to me I'm saying I don't know why I shouldn't believe that's just simply too aggressive since the guidance has been proven to be a little bit optimistic at least for the first three quarters of this year. So, give me some comfort as to why we are not still in that same boat where we're going to have an argument over whether or not your guidance is to aggressive.

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

Sheryl, I thought I followed you. You're focused now on 2006?

Sheryl Skolnick - *Fulcrum Global Partners - Analyst*

Yes. I'm looking at 2006 versus the revised guidance for '05. And what I guess I'm saying is we have had the argument for '05 that your numbers were too high, and indeed numbers have come down. And now we're looking at '06 and I'm saying why should we not have that same argument again? I mean, where do we build the confidence level? Is there a pipeline of new business and managed care? I grant you that Medicare is improving, but the 75% rule which may have contributed to a lot of rehab cases is not moving as quickly. It's a 60% requirement now. It's moving to 65 (%), as opposed to over the last 12 months it went from 50(%) to 60(%). So, maybe it creates fewer patients at the margin. I don't know. I'm a little bit concerned that maybe -- that I don't understand enough about the underpinnings of this guidance to get comfortable with why it is not aggressive guidance.

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

Sheryl, I guess, maybe a couple of things, a couple of data points. The growth -- turning to 2006, a significant amount of that growth is going to be in the Home Healthcare Services segment. Right now, if you were to drill down, we are looking at overall revenue growth in home health in the 9(%) to 11% range let's say. And when you look at that growth in that segment of the business over the past quarter, or actually couple of quarters, it has been in that double-digit, low double-digit/high single-digits, number one.

Number two, we have mentioned the expansion of our specialty programs, where we said this year we expect that we would increase -- we have 35 programs in 2005. In 2006, we're targeting about 50, more than half of those in the Safe Strides area where there's still a lot of opportunity. So, that's number two.

And then I go back to Matt's question where we talked about improvements in the margins -- 150 to 200 basis points, again, with the mix and control of cost. So, that's really, in my mind, the driving force behind the outlook of next year.

Ron Malone - *Gentiva Health Services, Inc. - Chairman and CEO*

I think, Sheryl, that we also -- we do have new managed care agreements in the pipeline. If you listened to any of our call from the other day, we had mentioned that these agreements are likely more in the sort of $5 million to $50 million range broadly. I'd weight that toward the low end; involves some pull-through. Usually those -- when we scope an account and say that it might be worth $5 million to us, that's usually pretty conservative based upon their total spend. And what we have found thus far is when we put them in the CareCentrix model, they usually become increasingly comfortable with that sort of one-call approach, which we continue to offer to most of our customers.

We're also expecting, say, imminently, to have an agreement for nursing for TriWest which does meet our margin expectations or our requirements in that area. We think that'll be a very attractive piece of business for us to pursue in those states that they cover. So, there is some expectation there and some things immediately in the pipeline.

Operator

Eric Gommel, Legg Mason.

Eric Gommel - *Legg Mason - Analyst*

I wanted to focus in on the labor component. You talked about labor costs, I guess, increasing. Are you finding the environment more competitive than before for nurses? Is there something new to the environment that is forcing the higher wage costs?

Ron Malone - *Gentiva Health Services, Inc. - Chairman and CEO*

I think there's a couple of things and they're somewhat interrelated. One is we are a much larger employer of physical therapists today than we would have been a few years ago. And there are certain markets where the demand is very high for those therapists. So, we probably have seen pressure there to meet the demand that we have coming out of the specialty growth, both orthopedics as well as Safe Strides, where both of those are heavily dependent upon the services of physical therapists.

I think if you add -- if you sort of add to that the general market conditions, where Medicare is an attractive payer and people have really put pressure in the market because the margin there is such where they can really typically afford to hire those people at a higher margin if it means getting at that business. I think the compound -- the effect of those two things have caused us a little bit of pressure there.

I think as well, we're working on calibrating the mix down at the market level between what is the right amount of full-time people in order to make sure that we're doing a good job on assessments and everything that comes with that, that we are providing good clinical oversight, senior-type of people out there in the field. We think that really helps us in the long-term. Those people -- and we mentioned -- I mentioned in my remarks, that group of full-time clinicians is performing roughly half the number of visits today. But they need to be supplemented by the appropriate number of per-visit clinicians as well.

Add to that that we need to do a better job of making some of those pay -- those pay and even those full-time people -- that pay needs to be variable to some degree, and we're working on that. I don't think it's a recent -- I think it's been a gradual phenomenon. I think we said over the past probably three years that we had not seen the type of inflation that we might have projected back then. We are seeing some of it now.

The most recent shortage of fuel just added to that, because I guess those folks are like most people in that they are looking at all of those -- they're looking at not only where -- how much are going to pay me, but is there a cost for me to do business with you, because virtually all those field clinicians are out driving around. There are very few places in the country where they can really effectively use mass transit. So, that has just added a little bit more immediate pressure. Now, we're seeing, we believe, a little of that pressure has abated as fuel prices have come down a little bit. But nevertheless, there was a sharp spike. We had to respond to that, particularly in certain markets.

Eric Gommel - *Legg Mason - Analyst*

My follow-up question really relates to this capacity issue. I understand this quarter was -- this was new capacity beyond some of the capacity additions that you put on in the prior quarters, or is this just sort of the drag of the capacity that you initiated at the beginning of the year?

Ron Malone - *Gentiva Health Services, Inc. - Chairman and CEO*

I, frankly, think it's both. The majority of the people we brought in the first of the year have done very well and are really up to speed. But there's still a market and it's -- I hope it's not difficult for me to explain or to understand out there, but you really have to -- we're really calibrating this in over 200 markets scattered all over the country. And the differences in those markets are sometimes considerable as it looks to pressure to recruit the -- the pressure on recruiting, the wages, the fuel costs. The fuel alone varies pretty wildly regionally. So, it's really a combination.

We continued to hire this quarter full-time clinicians, but we have -- we have issued a pretty clear warning that we need to make sure that the leadership in an individual market is making good use of those resources. And where we see that, we first stop and then we make adjustments. Adjustments may mean taking someone who is full-time and putting them back to per-visit status, because really the last few visits that person makes is where all our margins are going to be. So, if we are compensating, for example, at a rate of 30 and that caregiver were to make 27, that is not a good situation for us.

So, again, this is something we're working our way through. We have the data that we need to work through it. And I think really the good news is the pipeline is full of business. We have the effort to make sure that the managed care rates are going to be acceptable to us. We have what I consider to be a reasonably robust level of Medicare growth. We think we can keep these people busy. We don't want to do anything that's too abrupt. I don't like the result and the pressure on margins anymore than anyone on this call does. But at the same time I don't want to do anything abrupt that would cause us to lose a lot of capacity in a very short period of time. It's more a matter of working our way through it. I think we know what we need to do and are busy about doing it.

Operator

Arthur Henderson, Jefferies & Co.

Arthur Henderson - *Jefferies & Company - Analyst*

Could you give us kind of what your assumptions are for SG&A in your guidance for next year?

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

What we dialed in is incremental corporate cost, and corporate cost primarily in the area of IT and HR that would be in a range of 10 to 12%. And certainly, some growth in home health services to support the increase in business. But we'll be getting leverage out of that home health services segment. And we've dialed in some reductions associated with CareCentrix SG&A due to the reductions in business. And we're in the process right now of assessing those -- the structure in the CareCentrix area.

Arthur Henderson - *Jefferies & Company - Analyst*

I think you said $2 (million) to $2.5 (million) in the CareCentrix portion, right?

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

I'm sorry (multiple speakers)

Arthur Henderson - *Jefferies & Company - Analyst*

You talked about $2.5 million, I think, in your call last week about being able to take that up.

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

Exactly.

Arthur Henderson - *Jefferies & Company - Analyst*

So, it's fair to say that -- so, what is sort of your absolute dollar for next year?

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

The absolute dollar at this point is a growth in overall expenses in a range of $20 (million) to $25 million.

Arthur Henderson - *Jefferies & Company - Analyst*

$20 (million) to $25 million. Okay. Now, drilling down on your segment data -- is there any way that you could detail what your operating contribution in the Home Healthcare Services segment came from Medicare? And then, how -- if we wanted to split corporate expenses or allocate corporate expenses to those two segments -- how would we go about doing that?

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

In looking at the home health services segment, it is the accumulation of 200-some-odd branches that have a mix of both Medicare and non-Medicare business. So, we don't separate and we don't have a P&L that would show just the operating results for Medicare. Similarly on the corporate side, we present our corporate expenses, again, in accordance with the FAS, which is how we manage the operation -- don't segregate those out. I think the only color I could give is that I think it's fair to say that there is a bit more of corporate expenses associated with the Home Health Services business than there is to CareCentrix.

Ron Malone - *Gentiva Health Services, Inc. - Chairman and CEO*

In that side we're supporting over 200 locations across the country. And on the CareCentrix side we're supporting essentially four major centers. So, I think that John is right.

Arthur Henderson - *Jefferies & Company - Analyst*

So, a 70/30 kind of split. Something weighted in that manner.

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

That wouldn't be unreasonable.

Arthur Henderson - *Jefferies & Company - Analyst*

I think what I'm trying to get at here is that I think the concerns with the stock right now is the fact that there is not very good transparency into your Home Healthcare, Medicare services business. And if you consider the fact that, looking at your revenue and applying sort of a multiple on that Medicare revenue, say, that like an Amedisys is giving, it would suggest that maybe your commercial payer or Medicaid business you're getting for free at the current levels. But it's hard to figure that out, given the information that you have given.

So, to the extent that going forward you might be able to break this out in a little bit greater detail -- because I think pretty much everyone listening to this call really cares about the Home Healthcare Services segment much more than they care about the CareCentrix business -- that I think it would be beneficial for the stock price, be beneficial for investors. And I think you should really consider doing that.

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

We will certainly take that into consideration, Arthur, in terms of in the future what additional information we can provide. I will say, though, that as I said last week, CareCentrix is still a valuable piece of this company and it does make money.

Arthur Henderson - *Jefferies & Company - Analyst*

Do you want to elaborate on how much money you're talking about from an EBITDA margin perspective?

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

Other than to say the operating contribution that you can see there is roughly 8%, and we've talked about the split of -- rough split of corporate.

Arthur Henderson - *Jefferies & Company - Analyst*

In your guidance just real quick, and I'll jump back in the queue. Share repurchases; do you have that factored into your guidance?

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

I'm sorry; I just didn't hear you, Arthur.

Arthur Henderson - *Jefferies & Company - Analyst*

Do you have share repurchases factored into your '06 guidance?

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

We have some limit -- at this point, as I said, we have about 760,000 shares remaining under our authorization. So, we have us continuing to make inroads into that, yes.

Operator

John Ransom, Raymond James.

John Ransom - *Raymond James - Analyst*

Did Heritage add any meaningful accretion in the third quarter?

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

Through the five months, John, that we have owned Heritage, it is performing well. I believe we had said that for the rest of this year -- from May going forward -- it would represent about $0.02 to $0.03 of our contribution. And it is on pace to do that.

John Ransom - *Raymond James - Analyst*

Maybe a penny in the third quarter?

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

Through the five months maybe a penny to a penny and a half. Something like that.

John Ransom - *Raymond James - Analyst*

Secondly, I guess this is an impolitic question. The cognitive dissonance around the TriWest where that was a focal point of some positive commentary, and then the kind of abrupt cancellation. And I guess what's come out is you're having trouble getting paid. What -- I guess when you were making that positive commentary I presume you knew you weren't getting paid. What did you learn from that experience that maybe will prevent further TriWests down the road?

Ron Malone - *Gentiva Health Services, Inc. - Chairman and CEO*

I suppose that follows (indiscernible) no good deed goes unpunished. We thought we were doing the right thing by -- it was in our minds a positive agreement from the start. I don't know whether it's fair to say we didn't know we were getting paid. I think we anticipate with every new agreement that there is some ramp-up time there. We have considerable experience dealing with managed care, managed care-like entities. We knew that there was an intermediary involved. I think what we didn't properly understand was maybe the way that intermediary would process that billing that was different than what we experienced either in Medicare or with other managed care clients. John, this one was just -- it was just different and it just didn't -- wasn't obvious from the start.

John Ransom - *Raymond James - Analyst*

Who was the intermediary?

Ron Malone - *Gentiva Health Services, Inc. - Chairman and CEO*

WPS. Wisconsin.

John Ransom - *Raymond James - Analyst*

So, is the fact that there was an intermediary in a managed care relationship -- is that what made it different?

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

I think what made it different also is just the structure of the model. And in the TriWest world -- as we've talked about, needing TriWest to pay a direct provider as opposed to a network such as (multiple speakers)

Ron Malone - *Gentiva Health Services, Inc. - Chairman and CEO*

We had a couple of things that are different, John, in my mind other then just the intermediary's involvement. I think one is you have a TriWest operating under a master contract that they have with TriCare which is a complicated agreement. I think -- I really think that that is different. And I think the other thing is it might have been different had we been dealing with TriWest after they had had this agreement for a year or two. But remember, they were newly implementing the entire TriCare agreement, and we were trying to help them do that. And so, I'd say that in my mind at least, circumstances were more chaotic than you would normally encounter when you go in and offer this solution to an established managed care entity.

John Ransom - *Raymond James - Analyst*

Okay. I guess we are also hearing anecdotal reports of a bunch of Medicare-only businesses for sale kind of in the -- not the big systems, but there are a number of regional providers who have kind of raised their hands as the industry's come back. Are you -- do you think we'll see more Heritage-type deals down the road or is it more of an organic growth story in '06?

Ron Malone - *Gentiva Health Services, Inc. - Chairman and CEO*

I don't think our stance has changed there at all. We've said all along that we're very open-minded at looking at businesses we thought would be good long-term adds. I think the -- perhaps the -- where I would guide you to look there is look at our footprint where certain transactions come up over the past year that we did not consider to be ways that we could readily fill in the footprint. Some of them had significant overlap with us, particularly in markets that the integration of two businesses has not been easy in the past, given some hospitals' tendency to want to rotate around. So, one plus one could readily wind up as 1.3 or something like that if we were the ones to do it. We think it made -- some of those transactions made a lot of sense for other people.

And then the other end of the spectrum is we find a -- call it a $5 (million) to $15 million almost all-Medicare type of business, where the owners are going to have a reasonably good payday and walk away, yet the owners were also running the business. And those where they have deep relationships in the market also appear to be tricky to us. I think our interest is high. It's more about finding the right thing for Gentiva than it is any concern about pulling the trigger.

John Ransom - *Raymond James - Analyst*

I guess just hindsight 20/20 -- I guess if we look back over almost four years of you being plus with cash in an industry rebounding, I would have thought given that you have a very conservative screen you might have found more stuff to buy. But I understand the complications of your geographic overlap, your big geographic footprint.

I guess my last question is just kind of stepping away from full-time versus part-time -- what percentage of your clinicians are paid on a per-visit basis versus being salaried? And where would you like to take that next year?

Ron Malone - *Gentiva Health Services, Inc. - Chairman and CEO*

The full-timers are probably roughly, what, 15% now? Something of the headcount -- between 10 (%), maybe 12% of the headcount producing about 50% of the visits right now. I think by the time we have the fourth-quarter call we would be able to tell you where we see that going long-range. I think it is -- the full-timers will be at the level or above the level of what we have them today, but I think we will always supplement with some per diems.

What we're also trying to do in that mix that may complicate it a little bit is we are trying to reduce the number of people who have a very casual tether -- that is they make five or six, meaning they make (indiscernible) one or two patients (multiple speakers) and push them so that the people we're paying per visit are making enough visits that it makes sense for us to keep up the training and license or support and all those things for us. I know some people rely almost all on full-time; others on almost on all per-visit. We think that a blend is the right long-term solution, but we're just simply having -- I will readily tell you we are learning as we go there as to what that right calibration is. When you get it right though -- we're seeing some markets that have gotten it right, and it really helps us accelerate to grow and it definitely adds to our clinical stability in the market.

John Potapchuk - *Gentiva Health Services, Inc. - SVP and CFO*

John, just as a data point -- at the end of the third quarter our full-time clinicians were just over 1,200, and on a weekly basis the per diems that we pay are just under 10,000.

John Ransom - *Raymond James - Analyst*

That's great. I will conclude by -- I congratulate you on your -- particularly your rehospitalization stats, which are, what, 800 basis points or something below the national average? Those are terrific numbers. You are looking out for patients, and probably that gets lost sometimes in the shuffle of Wall Street.

Ron Malone - *Gentiva Health Services, Inc. - Chairman and CEO*

Thanks for paying attention to that. We're real proud of those stats around that hospitalization, urgent care and the patients who stay at home. And we believe that a little bit longer-term -- I understand there are different time horizons -- long-term, we think that benefits us.

I would like to thank each of you for your participation this morning, for your continued interest in and support of Gentiva. We will continue to keep you informed of our progress and look forward to speaking to you again on our fourth-quarter earnings call.

Operator

Thank you. Ladies and gentlemen, this conference call will be made available for replay starting today, November 3 at 1:30 PM Eastern Time. The replay of the conference will run until the date of November 10 at midnight Eastern Time. You may access the AT&T teleconference replay system by dialing area code 320-365-3844. Please enter the access code 797114. That concludes our conference call for today.