MANAGEMENT DISCUSSION SECTION

Operator: Good morning. [Operator Instructions]. It is now my pleasure to turn the floor over to your host, Mary Morrisey Gabriel. Ma'am, you may begin your conference.

Mary Morrisey-Gabriel, Senior Vice President and Chief Marketing Officer

Thank you and good morning, everyone. Thank you for joining us today. I'm Mary Morrisey Gabriel, Senior Vice President and Chief Marketing Officer of Gentiva Health Services and this is Gentiva's second quarter 2006 earnings call. On the call today are Ron Malone, Gentiva's Chairman and CEO; John Potapchuk, our CFO; Tony Strange, President of Gentiva Home Health; Bob Creamer, Senior Vice President of CareCentrix, and other key executives. We hope that each of you have had a chance to review the Company's earnings report, which we released after close of market yesterday. Comments made on this call, other than historical information, should be considered forward-looking or 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 statement in our news release and to similar language in our most recent 10-K.

Our call today will also be consistent with the Securities and Exchange Commission's Regulation FD, and we encourage participants to ask their questions during the call since 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 non-GAAP financial measures to include -- in that release or disclosure -- a presentation of the most directly comparable GAAP financial measure, as well as a 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 press 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 our special conference call replay for the next 7 days. A transcript of today's call will also be available on our web site within 36 hours.

Following today's prepared remarks, we will open the call to questions. Please limit your initial comments to one question and one follow-up before leaving the queue so that we can accommodate as many callers as possible in the allotted time.

Let me now turn the call over to Gentiva's Chief Executive Officer, Ron Malone, for comments on our second quarter activities.

Ron Malone, Chairman and Chief Executive Officer

Thanks, Mary. Good morning, everyone, and thanks for joining us. Before I begin, I want to mention that we have changed the format of today's call so the leaders of our two business units can provide you with direct comment on their results. We reported positive results in the second quarter as our net revenues increased 29% and our net earnings also improved if we exclude the special items for both 2006 and 2005 periods. Our business segments reported higher operating margins and, overall, we generate the strong cash flow necessary for the pursuit of our strategic goals. Our focus has been on the careful integration of Healthfield. In similar fashion we are making progress with the growth and performance improvement of CareCentrix. Gentiva is now making the most of our combined talent to drive change throughout the organization.

 Copyright © 2005 CallStreet

:callstreet corrected transcript

Here is an overview of what we have accomplished:

- We've put new management teams in place in most regions and in all business units.
- Our two southeast regions are now operating under the new structure we discussed during the last call.
- We're in the process of combining and streamlining our corporate billing facilities.
- We're developing new policies and procedures -- ranging from patient care management to employee benefits -- that improve upon the practices of the individual companies.
- We've opened new hospice locations and acquired a hospice business in Tennessee.
- We've continued to open new specialty locations, and our plans are on track to launch specialties in a number of Healthfield locations before the end of this year.
- CareCentrix is focused on increasing efficiencies and identifying new business.
- We continue to emphasize new technology including the delivery of a performance score card to monitor our key indicators for success in our branch homecare business.
- And we are reaffirming our expectations of achieving at least $3.5 million in synergies this year.

Our second quarter Medicare business more than doubled from the prior year period as a result of the Healthfield acquisition and internal growth. Same store Medicare revenues for our combined operations in the second quarter of 2006 were about 10% higher than the prior year period, as we made significant progress on the Healthfield integration and continued our focus on improving managed care pricing. We expect to accelerate Medicare growth in the future.

We also believe we are better positioned than other homecare companies in our ability to serve Medicare Advantage plans, which are growing and already account for more than 10% of Medicare enrollees among their members. We are able to accept many of these patients through our CareCentrix unit or through our local Home Healthcare branches, where we have contracts with acceptable margins. On that note, I would like to turn the call over to Tony Strange for additional commentary on the activities and events in our Home Healthcare and related segments. Tony?

Tony Strange, Executive Vice President and President, Gentiva Home Health

Thanks, Ron, and good morning, everyone. Net revenues in the Home Healthcare Services segment were up more than $56 million for the second quarter, or about 41%, compared to the prior year period. While the majority of this increase can be attributed to Healthfield, we also continued to grow our Medicare and our specialty programs. At the same time, we reduced revenues by over $4 million as we've exited managed care relationships that didn't meet our profitability criteria. I'm also pleased to report that we achieved our seventh consecutive quarter of operating margin improvement in Home Healthcare.

During this period, we've made great progress on a long list of items designed to transform the Company and enhance our operations. Here are some of the highlights:

- We completed in a number of management and structural changes involving our regional operations and specialty programs, and we're in the process of working on accounting and billing synergies.
- During the quarter, we've made the decision on branding for most of the overlapping markets involving Gentiva and Healthfield offices in one of our two southeast regions. Our referral sources, patients and employees are all reacting positively to our added presence in these locations.

- Our pilot program to compensate full-time clinicians on a per-visit basis is going very well, and we'll be rolling it out this month to additional locations, where appropriate. This is a best practice that our Healthfield offices have been using for quite some time. Per-visit compensation benefits clinicians at Gentiva and our patients by giving us the flexibility in meeting market demand for clinicians, helping us to achieve better productivity, and contributing to the delivery of superior care.
- We've remained very strong in our commitment to renegotiate managed care contracts and to improve commercial pricing. At the same time, we're attempting to migrate some of these contracts to CareCentrix to offer our customers an alternate solution. Ron already indicated our interest in Medicare Advantage and our unique ability to serve those patients. We've also continued to terminate less profitable relationships and give our branches a reasonable transition period to move that capacity to Medicare or other businesses. At the same time, we're focused on matching branch operating expenses to any potential changes in volume.
- In fact, we've continued to examine the performance of all of our Home Health office network to ensure that we've strengthened the individual branches, applied best practices and identified and quickly resolved areas that need improvement, or even closed certain unprofitable branches.
- From a clinical perspective, we have moved forward with the implementation of the patient care management program, and expect to complete that process by the end of next month. As described on our last call, this initiative is focused on delivering positive outcomes for the differing needs of patients that are chronically or acutely ill. At the same time, we’re strengthening our clinical support resources in the field by more closely aligning them within the regional structure.
- We’re also addressing capacity with a realigned recruiting organization that’s now working more closely with field management. Our recruiters have been much more effective in meeting the needs of local markets and in attracting and retaining clinicians.
- We’ve continued to expand our specialty programs with a number of new locations in the second quarter. As a result we now have more than 170 of these programs in various markets representing Gentiva Orthopedics, Gentiva Safe Strides and Gentiva Cardiopulmonary. Our expansion will continue during the remainder of 2006 and we plan to offer our specialties in a number of Healthfield locations before the end of this year.
- The clinical and the business success of our specialty programs has given us an important advantage over the competition as they demonstrate our industry leadership. In fact, we continue to generate extensive positive outcomes data on all three programs. The recent report on Gentiva Cardiopulmonary, for example, demonstrated the program’s ability to increase patient functionality, reduce hospitalizations, and emergency room visits and improve compliance in the taking of medications. We contact these patients after discharge, and have found that they are sustaining these positive outcomes by following our program.

Turning to our Other Related Services segment -- which includes hospice, respiratory, DME, infusion services and healthcare consulting -- net revenues were $30.4 million in the 2006 second quarter, about half of which was related to Medicare, versus the $1.3 million in the prior year period. The growth in this business segment was due primarily to the Healthfield acquisition that includes all payer categories.

In hospice, we’re investing in our sales force and have now opened new locations in South Carolina and Georgia, while our Atlanta inpatient facility is performing beyond our expectations. At the same time, we continue to look for complementary acquisitions, such as our recent purchase of the Lazarus House Hospice, which brought us the ability to serve patients in 15 counties in the CON state of Tennessee.

Copyright © 2004 CallStreet

callstreet

corrected transcript

In respiratory services, DME, and infusion and consulting, we're developing business plans and finalizing our branding to maximize our growth potential. We're also taking a closer look at how some of these businesses might interface with CareCentrix as we examine the various market densities and determine where we want to expand. I should add that we're open to acquisitions in this area, such as the recent purchase of the Carolina Vital Care Pharmacy operation in Charlotte, North Carolina.

And, finally, on the technology front, we continue to work toward the full-scale deployment of point-of-care devices next year. This would be the largest such deployment ever performed in the homecare industry. At the same time, intensive work continues on the integration of our systems as we move toward a single platform for the business units, including the addition of the business reporting system that Ron mentioned earlier.

Before I close, I know that most of you have probably seen last week's CMS proposals for the 3.1% home health market basket increase in 2007, as well as some of the changes to DME reimbursement. The market basket increase is an important way for the government to recognize the industry's higher cost for wages, fuel, recruitment, benefits and other factors. However, we recognize that this is a proposed rate and is subject to change. Gentiva continues to monitor the developments in Washington through our own governmental affairs operation and through the trade associations, and we'll remain vigilant in pushing for the full support of homecare on Capitol Hill. On that note, I'd like to turn the call over to my colleague, Bob Creamer, to discuss the results for CareCentrix. Bob?

Bob Creamer, Senior Vice President, CareCentrix

Thanks, Tony and good morning, everyone. I'm pleased to report that CareCentrix had a very good quarter. Our revenues were on track and operating contribution was ahead of plan due to our control of both administrative and direct expenses.

CareCentrix has now completed its restructuring and the realignment of our management and sales teams. At the same time, the market environment has shifted and we've identified opportunities that are already generating considerable new interest in our products and services. As a result, we're building a pipeline of potential new business which we hope to be able to share with you in the near future. These opportunities fall into several categories:

- One is the traditional commercial insurance business, in which we're continuing to provide some or all of our CareCentrix services primarily to regional managed care organizations and their members. This traditional business includes our relationship with CIGNA, which will expand to North Carolina members this quarter.
- Another significant opportunity involves managed Medicare and managed Medicaid. Both types of programs have shown significant growth and CareCentrix has experience in managing both populations. We believe we're well-positioned to offer both the management knowledge and the broad and deep services these plans must deliver to their members. By contracting with CareCentrix, health plans are able to focus their resources on other aspects of their medical spend.
- And finally, we're looking at specialized product offerings, such as administrative services, specialty pharmacy support, clinical programs and arrangements with at-risk physician groups, all of which could potentially offer higher margins than our traditional business.

As we have increased our focus on potential customers in all of these areas, we have been encouraged by their responses and remain confident in the CareCentrix' business model. Our challenge for the remainder of this year and beyond is to turn these opportunities into revenues and profits. We hope to bring you more news on each of these areas over the next few quarters.

With that, I'd like to turn the call over to our CFO, John Potapchuk, for additional comments on our financial performance and our 2006 outlook. John?

John Potapchuk, Executive Vice President and Chief Financial Officer

Thanks, Bob, and good morning to all you. The second quarter of 2006 contains a full three months of financial results generated by the Healthfield Group, which we acquired on February 28. As a result, our total Company revenue mix by major payer continues to change to reflect this acquisition and our focus on Medicare.

In the second quarter of 2006, Medicare represented about 47% of total net revenues as compared to less than 30% of total net revenues in the same period last year. Quarterly Medicaid and Local Government revenues were about 16% of the total this year and 17% last year. And Commercial Insurance and Other revenues, including revenues derived from CIGNA, were about 37% of total revenues in the second quarter of 2006 versus more than 53% in the prior year period. Revenues from the CIGNA agreement now represent 18.1% of Gentiva's total net revenues versus 23.3% in the first quarter of 2006 and 29.4% in the second quarter of last year. Within Home Healthcare Services, Medicare revenue increased from 48% of the segment total in the second quarter of 2005 to nearly 61% of the segment total in this year's second quarter.

Gentiva's second quarter 2006 gross profit was more than $40 million higher than the prior year period and this represented almost a 50% increase. As a percentage of net revenues, gross profit margin increased from 37% in the 2005 second quarter to nearly 43% in the current year's quarter. The increase in gross margin percentage is primarily attributable to these significant changes in our total company business mix:

- The impact of the Healthfield acquisition and its addition of Medicare at a traditionally higher gross margin than other business lines.
- Organic revenue growth in Medicare, especially from our specialty programs.
- Our progress in shedding unprofitable commercial business within the Home Healthcare Services segment.
- And less revenue in the lower gross margin CareCentrix business as compared to the second quarter of last year.

The gross margin percentage was also positively impacted in the current period by productivity gains in our clinician workforce and improved pricing in CareCentrix.

Selling, general, and administrative expenses for Gentiva were $29.3 million higher in the 2006 second quarter versus the prior year period, representing about a 40% increase. Approximately $28 million of the increase was due to Healthfield expenses in the current year's quarter. The remaining difference can be attributed to equity compensation expense resulting from the implementation of FAS 123(R) of $1.1 million, and restructuring and integration costs of about $700,000. In addition, we incurred incremental selling expenses to support our Home Healthcare branch network, as well as salaries and consulting costs to support our strategic technology projects. These incremental costs were more than offset by cost reductions of over $2.5 million in the CareCentrix units.

For the 2006 second quarter, EBITDA was about $20 million, or 7.1% of net revenues, as compared to EBITDA of $8.8 million, or about 4% of net revenues, in the prior year period. In comparing the second quarters of 2005 and 2006, reported operating contribution margins increased by over 300 basis points in both the Home Healthcare Services and CareCentrix segments. Operating margin in the Other Related Services segment was 17.3% in the second quarter of 2006.

We are pleased not only with the second quarter comparisons, but also with the sequential operating margin improvements in both Home Healthcare Services and CareCentrix over the past few quarters. Excluding special Medicare revenue items and restructuring and integration costs, since the third quarter of 2005: Home Healthcare Services' quarterly operating margins have

 Copyright © 2004 CallStreet

progressed from 9.3% to 10.1% to 11.7% to the second quarter's 13.3%. And CareCentrix' operating margins have increased from 7.5% to 7.9 to 8.4 and now to 11.7% in the 2006 second quarter. A bit less than 100 basis points of CareCentrix' margin improvement this quarter was due to a change in estimate relating to contract revenue. The remaining increase is due to operational improvements in the business. We'll continue to address margins by growing profitable revenue, controlling our costs and gaining synergies in our corporate and back office operations.

Turning to other measures, the effective tax rate for the quarter was about 42%. This included a normalized rate of about 39% and an incremental 3% relating to the tax accounting treatment of certain stock-based compensation. However, our cash payment for taxes is currently less than 5% of pre-tax income primarily due to the impact of Net Operating Loss Carryforwards and tax-deductible goodwill and intangibles.

As we noted in the release, we reported diluted earnings per share of $0.20 for the second quarter of 2006 versus $0.35 in the prior year period. Restructuring and integration costs reduced our second quarter 2006 earnings by about a penny. The combination of the FAS 123 (R) charge and its impact on the Company's effective tax rate reduced reported net income by about $0.04 per diluted share in the current year quarter. Second quarter 2005 earnings included a non-recurring tax benefit of $0.17. As a result, diluted EPS, adjusted to exclude these items, reflects an increase from $0.18 to $0.25 between the second quarters of 2005 and 2006.

We generated positive operating cash flow of more than $19 million during the second quarter and over $34 million for the first half of 2006. Cash flow was positively affected by our operating earnings and strong cash collections throughout the organization. Net accounts receivable declined by over $12.5 million during the second quarter and our days sales outstanding, or DSO, declined from 57 days at both January 1, 2006, and the end of the 2006 first quarter to 55 days at July 2.

During the second quarter, we used cash to make investments to enhance our operations, expand through complementary acquisitions and repay a portion of our debt. In this regard, for the quarter, we spent $6.1 million on capital expenditures, $8.6 million on two acquisitions as well as post-closing adjustments relating to the Healthfield transaction, and $10 million on voluntary debt prepayments relating to our $370 million term loan. The debt prepayments extinguished all required principal payments on the debt until mid 2008. As a result, the outstanding $360 million balance of the term loan is classified as long-term in the July 2, 2006 balance sheet. Furthermore, during the first week of July, we made an additional voluntary debt prepayment of $5 million and entered into a two-year interest rate swap agreement covering $170 million of the outstanding term loan. Based on our current margin, the hedging transaction effectively results in a fixed interest rate of about 7.9% for that portion of the term loan. While the balance sheet has changed significantly since year-end 2005, we continue to maintain strong liquidity, as evidenced by cash items and short-term investments of $69.3 million at July 2, 2006.

Before concluding my remarks, let me take a moment to discuss our current view of 2006. As we said in the news release, we're reaffirming our outlook for the year. We expect full year EBITDA of between $75 (million) and $80 million and diluted earnings per share of between $0.84 and $0.90 per share. The EPS outlook includes an expense of between $0.11 and $0.14 per diluted share relating to the impact of equity-based compensation expense from the new accounting rules and excludes any future restructuring charges or integration costs. From a directional standpoint and based on current trends, we anticipate that net revenues for the full year 2006 will be toward the lower end of our previously announced range of $1.12 billion to $1.16 billion. We anticipate positive operating cash flow in excess of $50 million and spending about $20 million in capital expenditures during the year. Total depreciation and amortization is expected to range between $16 (million) and $17 million, including the amortization of the Healthfield intangible assets.

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

Ron Malone, Chairman and Chief Executive Officer

Thanks, John. We will work hard as we continue to build our new Company and focus on the strategies we have outlined for this year and beyond, including:

- The integration.
- Our focus on Medicare growth.
- The growth of our specialty programs.
- The expansion of hospice.
- Better pricing for our commercial business.
- The growth and performance improvement of CareCentrix.
- And our other strategies designed to maintain and enhance Gentiva's leadership position in Home Healthcare.

We're proud of the efforts coming from our employees and we are looking forward to sharing the results of their work on future calls. With that, we'll be pleased to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. Thank you. Your first question is coming from Matthew Ripperger with Citigroup.

<Q – Matthew Ripperger>: Hi, thanks very much. Two questions: you mentioned that the Medicare same store revenue growth was 10% in the quarter. I think that was a little down from the 18% that you reported last quarter, and then you said that that would accelerate going forward. Can you just give an outlook on where you see that sort of settling down and how much can it accelerate in future quarters?

<A – John Potapchuk>: Yeah, Matt, just to clarify, I think last quarter we talked about 18%, but same store, I believe, was 15(%) just to clarify that point. We talked about it roughly 10% this quarter and certainly, I think, with the continued expansion of specialty programs, where there is a significant focus on Medicare, and just I think, some settling down from the acquisition. I mean, there is clearly some disruption in the early stages there. I think we can continue to bring that – bring that percentage up.

<Q – Matthew Ripperger>: And does the 10% same store number for this quarter include Healthfield?

<A – John Potapchuk>: Yeah. What I did, just to clarify that, is we looked at the Gentiva same stores and Healthfield locations that have been open longer than 12 months, even though, obviously, in 2005 they are not part of our results -- just to look at what that growth was and blended together that average, that was slightly above 10%.

<Q – Matthew Ripperger>: Okay, great. And then my follow-up question is, you mentioned that you are expanding hospice. Can you just give an update in terms of how many locations you have now, to how many you expect to add to it per-year going forward, and just maybe some qualitative comments on how you are expanding hospice, given your home nursing footprint around the country?

<A – Tony Strange>: Well, this is Tony Strange, good morning again. In terms of the expansion, we are probably going to open somewhere between 8 and 12 a year as kind of our goal, and when we see opportunistic acquisitions that might play into that. But in non-CON states for hospice, we have got about 5 in the oven now that are coming out of the ground that will be probably up and running before the end of 2006, and we would expect that trend to continue throughout '07 unless we make a strategic decision to turn the heat up on that a little bit.

<Q – Matthew Ripperger>: And can you comment on how many hospice locations you have currently and maybe some color on what markets you are targeting for expansion into?

<A – Tony Strange>: Currently, there's about 33 locations and I use that term generically because there are some that are in start-up mode that haven't been licensed yet. So, around 33 or so. We probably are going to stay in markets where we have a high concentration of home health as the markets we are going to look for. So, obviously, in the southeast, there is plenty of room for continued expansion around the $450 million or so of home health business there.

<Q – Matthew Ripperger>: Great. Thanks very much.

<A – John Potapchuk>: Thank you, Matt.

Operator: Thank you. Your next question is coming from Reid Walker with Walker Smith Capital.

<Q -- Reid Walker >: Ron and Tony and John, you guys have been obviously very busy the last four months. We obviously noticed the slight change in guidance for '06 revenues and we had assumed and hoped -- and you guys kind of just stressed this -- that this is due to a more proactive willingness to walk away from marginally profitable to maybe even unprofitable commercial business in the Home Health side, just due to the profitability guidance remaining intact. If this is the case, what does this do to the potential profitability level at each local branch level, and also to potentially substantially increasing margins – corporate margins for '07?

<A – Ron Malone>: Reid this is Ron, good morning. We are steadfast in this. We have, unfortunately, terminated a good number of agreements during the quarter. It is reflected in our revenue results and we are in the process of refocusing those branches on the higher-margin Medicare business available to us and higher-margin commercial business. Now, we are being very careful to also refer those clients over to CareCentrix and work with the sales group over there, because CareCentrix is the highest and best offering that we have for managed care. It makes sense to them and, given some shifts in the market, we're seeing a renewed interest. I would like to also like to think that our sales team and our management team is doing a better job of presenting that opportunity as well. But I'll also ask Tony to comment on what this means -- the way we will grow the Home Healthcare business in the future.

<A – Tony Strange>: And, Reid, I mentioned earlier that we probably exited somewhere in the ballpark of – in excess of $4 million throughout the second quarter of less than desired profitable business. One can make an assumption, though, that we will be managing the expenses accordingly so that shouldn't have any impact, or it shouldn't have negative impact, on earnings as we get out of this business. Matter of fact, I would make the argument that one would see a positive impact on earnings on a less dollar amount of revenue.

<Q -- Reid Walker >: Okay, and then what about the potential capacity that this creates? I mean, it stands to reason if you are just losing that revenue and it's not hurting you, but if you refill it over time and obviously that's not a one-for-one relationship, it takes time to fill that. But as you fill it, that's got to be huge for margin, the profit, billing and cash flow at the local level and also what it does to corporate.

<A – Tony Strange>: And, Reid, you're right on target and I'd like to echo your comments. It doesn't happen one-to-one. It doesn't happen for every dollar you reduce today, you replace it with a dollar today. It does take time to replace that, but anytime you're trading out a 30%-margin business for a higher-margin business, you would expect – you would anticipate -- to have a significant positive impact on the bottom line.

<A – Ron Malone>: I would – Reid -- I would add to Tony's comments. As you're replacing it with higher margin business, you're also replacing it with business where there is higher revenue per patient served, there are better cash flow terms associated with it, and, I think, smoother operating requirements on the inside of our branches, because -- as we had mentioned before -- there are really three issues. It's what price we get per encounter, how many encounters are authorized and what we have to do to get those authorizations and be paid. So, it's not —it is higher-margin business, but it is better business and, in many ways, completely in alignment with our mission.

<Q -- Reid Walker >: Okay, guys. As one of your biggest shareholders, we're excited you guys are doing it and that takes a little bit of discipline and it's not going to be overnight, but we think, long-term, it's a slam dunk for shareholder value. Thank you, guys.

<A – Ron Malone>: Thank you very much.

<A – John Potapchuk>: Thanks, Reid.

 Copyright © 2004 CallStreet

<A – Tony Strange>: Thanks, Reid, for your comments.

Operator: Thank you. Your next question is coming from Eric Gommel with Stifel Nicolaus.

<Q – Eric Gommel>: Good morning. Going back to the hospice business, we had another senior living provider announce a hospice acquisition this morning, and I am curious as to what you believe may be the competitive advantages you have over a standalone hospice provider in your markets as you grow this business -- and maybe even related to some of the facility-based providers who have also gotten into the hospice business?

<A – Tony Strange>: This is Tony. There's a couple that come to mind. The first is the leveraging of your referral sources, or your customer base. The customers, the relationships that are in place with customers that are referring patients to us for home health today, are the same customers who are referring patients to hospice today. And so, when one of our sales resources has spent years establishing a relationship with the customer, to now to be able to go in and say, and we can provide hospice as well, so instead of – it's the same relationship. That's probably one of the biggest. The second biggest is that patients today – there are patients within home health today that, as their prognosis changes, are then determined to be hospice-eligible. So every home health company in America today discharges patients to hospice. So if we could discharge a patient who was a revenue-generating patient for home health, if we're just moving that revenue from home health to hospice, as opposed to losing it, that's the other real significant benefit.

<Q – Eric Gommel>: And just my follow-up question on the acquisition side. What are you seeing with valuations of home health targets and hospice targets? Have they – have the valuations increased, flattened out or are they down relative to, maybe, six months or a year ago?

<A – Tony Strange>: Well – this is Tony again. I think, from my perspective, you have got to put acquisition targets in some categories. And the kinds of transactions that we're looking at are very opportunistic right now, and that's pretty consistent, which has helped Healthfield – and in my past we've done a lot of those opportunistic acquisitions, and I haven't seen a significant change in pricing or multiples related to those smaller deals. I haven't personally gone out and looked at it, another very large acquisition today, because I just don't think that's our appetite right now.

<Q – Eric Gommel>: Great, thank you.

Operator: Thank you. Your next question is coming from John Ransom with Raymond James.

<Q – John Ransom>: Hi, good morning. If you were to look at the companies, I know they are one company, but I guess prior to the acquisition, Healthfield was running about $50 million of EBITDA and Gentiva about $38 million. If you adjust for options and some of the other one-time things would you – as you look at this year's EBITDA, what's a good way to think about how that's tracking versus last year?

<A – John Potapchuk>: John, this is John. The Healthfield numbers were pretty much on track. I mean, as we mentioned on our last call, as we are going through this integration process, the idea of separating out Healthfield over time would start getting a bit foggy. But from the branch network, that's certainly on track. I think as we move, on the Home Healthcare Services side, away from some of the unprofitable commercial business, and replace that with Medicare, that Home Health set portion of the business is growing and I mentioned the improvements in the operating contributions over 7 consecutive quarters. Well, part of that is Healthfield, and part of that is the former Gentiva locations, if you will. But you see, overall, given the fact that CareCentrix' revenue is down, that for the six-month period, their profitability in dollars is down a little bit, but, certainly, we have made operational changes and you see that, year-over-year, actually up slightly for the second quarter.

 Copyright © 2004 CallStreet

:callstreet
corrected transcript

callstreet

So, I don't know if that helps a little bit, but those are as much of a component as I can give you at this point.

<Q – John Ransom>: Yeah, I guess if you take out an $88 million run rate and you subtract options expense, it looks like, at least for now, you are kind of where you were a year ago and so we should build from here. I guess we should think of this more as – and to just point out the obvious -- I guess it is more an '07 story than an '06 story?

<A – Ron Malone>: I think that's the way we have looked at it, John, all along. Actually, we're pointing our attention toward the fourth quarter as the springboard into '07. And the other thing that is so exciting is it is just a tremendous platform if you do the math, and we are able to execute on what we have laid out in terms of converting more of our attention into Medicare admissions, this tremendous leverage in a system of our size, to produce great results.

<Q – John Ransom>: Sure. My other question: G&A prior to FAS 101 is running right at $100 million, excluding $700,000 in restructuring. How should we think about that dollar number sequentially? Is that going to continue to grow or should we look for that dollar number to start to trail down a little bit as you get a little deeper into the integration process?

<A – John Potapchuk>: Well I think, John, if you -- maybe I will comment on a component of that $100 million and that's the corporate number. If you go to the supplemental information, you see that corporate number is $17.6 million. Included in that number is the -- about $1.1 million for the options and roughly half of the restructuring and integration costs. So, if you carve those two out, that's somewhere around $16 million for the quarter. I think I may have mentioned on an earlier call that, in terms of corporate expenses, Gentiva was running in the mid-$40s (millions), Healthfield was about roughly $22 (million). So, you see that that number, same store, is starting to come down now and I think that, certainly would be a component to look at. As we grow the other aspects of our business, there's some variable expenses involved in supporting that business growth. So that'll be the other aspect of G&A.

<Q – John Ransom>: And then my last question: as you roll out the remote -- I'm going to mangle what this is called, but the technology whereby nurses can enter data in PC's remotely -- what sort of back office savings do you think you might be able to get versus having a more of a manual process? Is that something we should think about as potentially moving the needle next year?

<A – Ron Malone>: I will comment on that, John, qualitatively. We will eliminate a tremendous amount of, we believe, data entered at the branch level. We will also eliminate what I would deem re-work that happens today because there's an inherent error rate in any manual data entry. There's a lot of interaction between the branch and the field clinician getting information, and making sure that it's correct. And that system would allow a large number of edits, so that the information – so that the quality of the information going in on the front-end -- should be significantly higher than what we see today. The people that we talked to prior to undertaking this project actually saw the hard savings of this plan – of this type of investment in the back office. They became much more effective in the back office. So I would estimate that some significant amount of our cost in our financial centers is really due to this re-work, this getting the information right before we can submit a claim -- or, in some cases, after we have submitted a claim, and it's been adjudicated by a payer. So, I would suggest there are several things that are moving in play: one is implementation of this technology and then the second would be this transition away from less profitable managed care, which is more intense in the back office and toward Medicare, should get a little relief there, as well. It will be less expensive, in the back office, for us to bill the Medicare.

<Q – John Ransom>: And I know this isn't a G&A number, but do you have a number – a walking-around number -- for back office costs associated with this function today?

 Copyright © 2004 CallStreet

<A – John Potapchuk>: I think, John, that that's something we will have more color on as we continue the process. I mean, we are in pilot phase in a few different locations and as we get clarity, we will give some information later.

<A – Ron Malone>: But the back office cost -- I do have a number, but the back office cost is – I mean it's a significant number -- today.

<Q – John Ransom>: All right --

<A – Ron Malone>: Thanks you very much, John.

<Q – John Ransom>: Okay.

Operator: Thank you. Your next question is coming from Larry Marsh with Lehman Brothers.

<Q – Doug Tsao>: Hey, guys, this is Doug (Tsao) calling in for Larry. Just a quick question: it sounds on the managed care side, CIGNA was probably a little stronger than we were expecting, but it sounds like you sort of have shed some of the – some other sort of managed care business. I was wondering how far along in the process you are as far as sort of going through contracts and potentially shedding business. Should we expect some more there or do you find that – do you think that process is complete?

<A – Ron Malone>: The process, Doug – good morning. The process is not complete and the effect you would see in it in this quarter would be somewhat of a rolling process. So, we would have terminated some contracts in the first quarter that you would have seen the full effect of in the second. We terminated some in the second, which you will see the full effect of in the third, and we have – while certainly we are keeping a majority of our contracts and, frankly, we have pleased to renegotiate some contracts into higher rates, but the ones – we have also terminated a good number of those. We believe some of those will come back both in the forms of acceptable pricing in our branch network, as well as over to CareCentrix as opportunities there, and I'd say that we are probably – I don't know, it is hard to say because of that sort of circular motion of some of them. But we might be halfway or so through that process. I would remind you, though, that that process never ends. Our costs are going up, the cost to attract and retain caregivers, to buy fuel and those sort of things are going up constantly. This is not something that ends.

<Q – Doug Tsao>: Okay. And then – you have not broken out -- could you just provide sort of some comment on the contributions in Healthfield in the quarter? From a revenue standpoint?

<A – John Potapchuk>: Yes. Doug, as I mentioned earlier, some integration is going on and numbers are not pure, but the revenue associated with Healthfield is certainly in excess of $80 million for the quarter.

<Q – Doug Tsao>: Okay. Great. Thank you very much, guys.

Operator: Thank you. Your next question is coming from John Wagner with Walker Smith Capital.

<Q – John Wagner>: Hi, guys. Thanks for taking the question. Just have a quick follow-up question on hospice. You mentioned you have 33 hospice locations up and running now and I was just curious how many of those are awaiting Medicare licenses?

<A – Tony Strange>: I think a better – on any given time like right now, we have very different stages of start-up mode; so some are – there might be some that we're opening, that aren't ready for licensing yet. We are still putting in the infrastructure, beginning to service patients. So, your question is a little bit difficult, but, today, we have about 3 locations where we are waiting on licensure today. But that doesn't mean we only have 3 in start-up mode.

Copyright © 2004 CallStreet

callstreet
corrected transcript

<Q – John Wagner>: Right. And when you closed the Healthfield acquisition, you had 24 locations, is that correct? So you've added 9 since?

<A – Tony Strange>: That's in the ballpark. That's directionally correct.

<Q – John Wagner>: Okay. And I assume that's the bulk of the – if you look at the sequential drag on the Other Related Services margin?

<A – Tony Strange>: Yeah, there is start-up cost, there's a significant start-up cost number in those numbers.

<A – John Potapchuk>: Absolutely.

<Q – John Wagner>: Okay, great. Thank you, guys.

<A – Ron Malone>: Thanks, John. Do we have another question?

Operator: Just a moment, sir. Your next question is coming from Sheryl Skolnick with CRT Capital.

<Q – Sheryl Skolnick>: Good morning, gentlemen. I want to thank you for taking the question and you've done a lot of good, hard work and it is apparent in the numbers here. And I'm just sensing a little bit of momentum going into making all of these changes in the business. But, hating to burst that bubble, I'm going to ask a question that's going to bring you back to first and second quarter of '05, when the Gentiva business, as I recall, was struggling with having hired a lot of clinicians, not getting the productivity out of them, and having some issues with your Medicare margin, in particular, not necessarily being able to – and revenue – not taking advantage of the opportunity that then existed. So, is that fixed now? Can I look at the legacy Gentiva branches and say, okay, we've worked through all of those massive hirings? It's another way of asking the same store growth question, which I noticed you didn't want to parse out because 10% can be blended by having zero percentage Gentiva and 10% at Healthfield. So, help me out here to understand what progress you've made in fixing the issues that Gentiva had before we even get into the integration of Healthfield.

<A – Ron Malone>: Let me be very clear on a few points. First of all, we have a lot of improvements that we can do in the former Gentiva, the older Gentiva branches. Secondly, we really loaded up in the first quarter of last year, and subsequent to that, we brought those caregivers well within the range of acceptable productivity. Thirdly, we are adapting, as is appropriate, the pay-per-visit model that Healthfield had used, and we had begun piloting our sales prior to that acquisition, which, I think, gives us more elasticity as it relates to that labor. This quarter, in the former Gentiva branches, we've brought on just over 50 new caregivers net, which you might recall, is the number we told Larry Marsh in response to a question: were they a more normalized rate per quarter that we would anticipate bringing on. So, I would say that we certainly have dealt with that issue and absorbed those caregivers into our system and, if anything, at this point, we're redoubling those efforts to both attract and retain caregivers, ' cause I really to – at the risk of sounding as a reductionist, he or she who has the caregivers, wins.

<A – John Potapchuk>: And, Sheryl, I might just add also, that I was trying to gain clarity with the indication of around 10% growth in Medicare throughout the organization same-store. It's not like one is zero and the other is way high. They were within a point or two of each other.

<Q – Sheryl Skolnick>: Okay. Good.

<A – John Potapchuk>: The 9, 11 is like something in that nature.

<Q – Sheryl Skolnick>: Okay, so that's very helpful, because I think it gives us a more balanced picture of what's going on there. Now, your cash flow was particularly strong, but I do have a question: since CIGNA terminated a piece of the business, gave it to Apria, have you had any difficulty collecting from them and, therefore, paying your vendors in any way?

<A – John Potapchuk>: Absolutely not. CIGNA is a very good payer.

<Q – Sheryl Skolnick>: Okay, so they are all current on everything and you're current with your CareCentrix vendors, correct?

<A – John Potapchuk>: Absolutely, and as you go through the balance sheet, those amounts that CareCentrix' vendors are indicated on the "cost of claims incurred, but not reported" line.

<Q – Sheryl Skolnick>: Okay as opposed to the "accounts payable" line?

<A – John Potapchuk>: That's right. That's where we make that up. Once we process it, it goes into accounts payable and then it gets paid the next day or two, but, yeah, that's the line to look at.

<Q – Sheryl Skolnick>: Okay. Just one final thing. On that 3.1%, I know your habit in the past has to not count your chickens before they're hatched. So, on that Medicare update, as you're planning – doing your strategic planning process, are you anticipating getting an increase in Medicare rates?

<A – Tony Strange>: Sheryl, this is Tony. We are continuing to push forward. We believe that that rate increase is due. We believe it is necessary and we're going to continue to (inaudible) with all of our efforts to push forward to see that we keep that rate increase that's been allocated to homecare now. With that said, we're not going to count on that, because as we've seen late in the year last year, and what happened in Congress with the market basket increase, we're going to make our plans as if it didn't happen, but we're going to push with every ounce of our being to see that it does.

<Q – Sheryl Skolnick>: That's fine. Very good. Thank you so much.

Ron Malone, Chairman and Chief Executive Officer

Okay, I'd like to thank each of you for your participation this morning and for your continued interest in our company. We're excited about the prospects for the new Gentiva and we hope to share additional information about our progress on our next call. Take care.

Operator: Thank you. This concludes today's Gentiva Health Services conference call. You may now disconnect.

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2005. CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.

callstreet
corrected transcript