

Q1 2006 Gentiva[®] Health Services Earnings Call
Thursday, May 11, 2006

Officers

Ron Malone; Gentiva Health Services; Chairman and CEO
John Potapchuk; Gentiva Health Services; EVP and CFO
Tony Strange; Gentiva Health Services; EVP and President, Gentiva Home Health
Bob Creamer; Gentiva Health Services; SVP, CareCentrix[®]

Participants

Eric Gommel; Stifel Nicolaus; Analyst
John Ransom; Raymond James & Associates; Analyst
Matthew Ripperger; Citigroup; Analyst
Art Henderson; Jefferies & Company; Analyst
Balaji Gandhi; Oppenheimer & Co.; Analyst
Douglas Tsao; Lehman Brothers; Analyst
Brian Tanquilut; Jefferies & Co.; Analyst

Presentation

Operator: Welcome to today's Gentiva Health Services First Quarter 2006 Earnings Conference Call. Today's call is being recorded and will be available for replay beginning at 12:00 PM Eastern, and will last until May 25th at midnight. The dial-in number is 973-341-3080, followed by entering PIN number 7320422. The call is also being web cast and is accessible through Gentiva's web site.

[Operator Instructions] It is now my pleasure to turn the floor over to your host, Mary Morrissey Gabriel, Gentiva's Chief Marketing Officer. Miss, you may begin.

Mary Morrissey Gabriel: Thank you very much and good morning. I'm Mary Morrissey Gabriel, Senior Vice President and Chief Marketing Officer of Gentiva Health Services, and this is Gentiva's first quarter 2006 earnings call.

On the call today are Ron Malone, Gentiva's Chairman and CEO, John Potapchuk, our CFO, Tony Strange, the President of Gentiva Home Health, and other key executives.

We hope that each of you has had a chance to review the Company's earnings report, which we released at the close of market yesterday.

Comments made on this call, 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 SEC. 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 SEC'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

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 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 seven 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 first quarter activities.

Ron Malone: Thanks, Mary. Good morning, everyone, and thanks for joining us.

I'm pleased to report that our enthusiasm over the Healthfield transaction has increased in the weeks following our launch of integration activities. Our two companies have taken decisive steps toward becoming a unified organization. We've already made great strides in aligning our priorities, reorganizing our field structure, identifying opportunities and making the most of an outstanding group of people.

And in that group is Tony Strange, the President of our home health business, who has joined us on the call today. In a very short period of time, he has become a valued colleague and a key driver of our growth initiatives. Tony, welcome to the call.

In addition to the Healthfield integration, we've continued to focus on our other strategic priorities for 2006 and beyond, including --

Medicare growth, and the continuing expansion of specialty programs and hospice.

Improved pricing from commercial customers as we change or end relationships which have unsatisfactory margins.

Capacity and clinician productivity, including the initial launch of a new clinical management system and point of care devices.

Clinical excellence through the sharing of Gentiva and Healthfield best practices for optimization of patient outcomes.

And restructuring of CareCentrix for greater efficiency and more traction in the marketplace.

We expect to make progress in all of these areas during 2006.

And speaking of progress, we're very pleased with the way that Tony and his team have moved forward with the Healthfield integration. In just a few weeks, here's what we've accomplished --

We've reorganized and strengthened our field organization, both in operations and sales, to leverage market opportunities and manage Gentiva's considerably larger base of business in the southeast.

We've completed the integration of our field line leadership teams in the southeast.

We have taken advantage of talent with both Gentiva and Healthfield backgrounds to configure territories and responsibilities in such a way that we are positioned to continue growing. I'm very proud of how these leaders have responded and the considerable respect and enthusiasm they are showing in working together.

We've begun a very thoughtful process on how to run our crossover markets and are tackling such issues as branding, sales deployment and systems integration to take advantage of our size, while preserving the hometown focus on local conditions and needs. We believe this approach will yield the greatest competitive advantage in each market.

And every week, we're continuing to pursue additional opportunities. We expect to use all the valuable resources of both companies to create a new Gentiva that's stronger and more effective than the sum of its parts. When we talk about synergies, we're thinking just as much about maximizing our combined strengths to produce revenue-generating activities as we are about extracting costs.

While the integration moves forward, we remain focused on our priorities. That's evident from our Medicare growth of more than 18% for the first quarter, excluding special items and Healthfield revenues. We experienced positive growth in admissions and in revenue per admission, and we expect this trend to continue.

The bulk of our organic Medicare growth continues to come from our specialty programs. Through the end of the first quarter, we had programs in well over 150 locations, including a number of recent launches.

We also have plans for further expansion this year. We've added new leadership to our specialty team and are now in the process of identifying additional resources to assist in the introduction of new programs. We're currently conducting market-level surveys in a wide area to identify our expansion priorities for the remainder of this year and next.

We also believe many of our existing home health markets will benefit from the introduction of hospice. Home health and hospice are complementary and we believe our presence in home health will help us launch new hospice locations. As part of the integration, we're now moving forward with plans for hospice expansion, including strategies which take into account changes in state laws regarding the growth of that business.

In April, we opened our first in-patient hospice unit in Atlanta. We're very proud of the facility, its staff and our launch of this new offering, and we'll continue to evaluate in-patient hospice opportunities in other locations.

In addition to our expansion strategies, we're continuing to pursue better managed care pricing for our home healthcare services by looking at every commercial relationship in every market. We've been very focused in this area and are pleased to continue our managed care relationships when customers follow our care protocols and give us fair pricing.

While we've had to divest some unprofitable business, we have the opportunity to shift capacity over to Medicare and other profitable business in a number of markets. Because we can't expect to instantly discontinue and transition some of these less profitable managed care agreements, we're giving each of our branches a reasonable time to make the shift and divert those resources to more acceptable business.

We also continue to work on improving our clinical capacity and productivity. While everyone knows we face a national shortage of skilled clinicians, we have to challenge ourselves to use our size and experience to attract, train and retain these valued resources.

We have a number of initiatives underway, including more flexible schedules and compensation, improved and standardized orientation protocols, and our commitment to introducing a new clinical management system, including point of care devices to improve the overall work experience for our clinicians.

We continue to see positive results from our initial point of care application and expect to complete broad user acceptance testing by the end of 2006, with a full-scale rollout scheduled for next year. Our pilot locations have shown improved performance and our clinicians have reacted very positively and enthusiastically to this technology.

Gentiva and Healthfield have both been good companies in delivering patient care. Yet both organizations have delivered care and oversight with slightly different approaches. As a result, we're learning a lot from each other. One of our first priorities was to bring together our compliance, clinical and operations teams to determine a uniform approach to managing patient care for the combined companies.

We have completed this process and are already rolling out this consistent methodology to our branches. As a result, we believe the new Gentiva will raise the bar in delivering clinical outcomes beyond the level previously achieved by either company.

Turning to the first quarter results for CareCentrix, this business segment reported expected declines in net revenues and operating contribution from the prior year period, as a result of changes in some contractual relationships that we've discussed on prior calls.

CareCentrix has now strengthened its leadership with renewed energy and a clear focus on growth. We've been reducing costs and rebuilding our regional care centers in response to changes in certain relationships. They have a new look and feel and we're completing this process at a better rate than expected. We're working to change processes, increase productivity and improve our ability to manage complex cases at lower costs.

Today, we also have a stronger sales team with people who have extensive managed care experience and industry contacts. We continue to focus on building relationships with a broad range of managed care organizations.

CareCentrix is also finalizing plans to better serve beneficiaries under Medicare Advantage programs, which now have a total of more than 6.0 million members nationwide and are expected to grow dramatically in the years ahead. We believe we have the right solutions to help managed care organizations coordinate and deliver the Medicare home healthcare benefit more efficiently. Energy, creativity and momentum are coming from the new CareCentrix team and we expect to report on their progress later in the year.

In fact, we're seeing energy, creativity, momentum and excitement throughout the Company as we move forward with the Healthfield integration, focus on the growth of our businesses, and make Gentiva the first choice for home health professionals.

That concludes my discussion about our accomplishments, opportunities and challenges. I'd like to turn the call over to our CFO, John Potapchuk, for additional comments on our financial performance, as well

as some updated information related to 2006.

John?

John Potapchuk: Thanks, Ron, and welcome everyone. As we review our 2006 first quarter financial performance and our updated outlook for the full year, the impact of the Healthfield acquisition and the pursuit of our strategic priorities becomes evident.

First, in the Home Healthcare Services segment, net revenues were up nearly \$33 million, or 25%, in the first quarter of 2006, as compared to the prior year period. The vast majority of this increase occurred in Medicare, resulting from the Healthfield contribution since its acquisition on February 28th and the continued growth of Gentiva's specialty programs.

As expected, CareCentrix revenues for the first quarter declined by nearly \$9 million, or about 11%, from the 2005 first quarter, due primarily to the termination of the TriWest Healthcare Alliance contract in November 2005.

In our Other Related Services segment, which includes hospice, DME and respiratory services, infusion therapy and healthcare consulting, net revenues were \$11.6 million in the 2006 first quarter, about half of which related to Medicare, versus \$1.3 million in the prior year period. The growth in Other Related Services was due entirely to the Healthfield acquisition and covers all payer categories.

Our business mix has changed substantially from the prior year period. In the first quarter of 2006, Medicare represented about 41% of total net revenues, as compared to about 30% of total net revenues in the same period last year.

Quarterly Medicaid and local government revenues were 17% of the total this year and 18% last year.

And Commercial Insurance and Other revenues, including revenues derived from CIGNA HealthCare, were about 42% of total revenues in the first quarter of 2006, versus 52% in the prior year period. While revenues from CIGNA were flat compared to the prior year period, they declined as a percentage of total net revenues, from 27.4% in the first quarter of '05 to 23.3% in the current first quarter.

Our first quarter 2006 gross profit was more than \$20 million higher than the prior year period and this represented an increase of about 25%. As a percentage of net revenues, gross profit margin increased from 38.6% in the 2005 first quarter to 41.6% in the current year's quarter.

The increase in gross margin is attributable to favorable changes in our business mix, some improvement in commercial insurance pricing, and the \$1.9 million final settlement of the PRRB appeal relating to our 1999 Medicare cost reports. These improvements were partially offset by lower gross margins in our CareCentrix unit.

SG&A expenses were \$15.7 million higher in the 2006 first quarter versus the prior year period, representing about a 22% increase. Healthfield's expenses subsequent to February 28th represented about \$10.5 million of the total increase.

The remaining difference is attributable to CareCentrix restructuring and Healthfield integration costs of \$2.0 million, equity compensation expense resulting from the implementation of FAS 123(R) of \$600,000, and the absence of an \$800,000 favorable arbitration settlement recorded in the 2005 first quarter.

In addition, we incurred incremental operating and sales costs relating to increased Medicare volume. These increases were offset somewhat by operational efficiencies in the CareCentrix unit.

For the 2006 first quarter, EBITDA was \$12.5 million, or 5.1% of net revenues, as compared to EBITDA of \$8.1 million, or 3.9% of net revenues, in the prior year period. The increase in EBITDA margins is attributable to a 250-BP increase in gross margins, offset somewhat by a 130-BP increase in S,G&A expenses. More than half of the percentage increase in S,G&A relates to those restructuring and integration costs.

Turning to margins in our reportable business segments, the Home Healthcare Services operating contribution margin increased from 8.6% in the prior year period to 12.3% for the first quarter of 2006. CareCentrix margins declined from 8.7% in the 2005 first quarter to 7.5% in the 2006 period.

Operating margin in the Other Related Services segment was 23% for the first quarter of 2006.

We're pleased with our continued progress in improving operating margins. If we exclude the first quarter special Medicare item and the restructuring and integration costs, we show sequential operating margin increases in Home Healthcare Services and in CareCentrix over the past three quarters.

Since the third quarter of 2005, Home Healthcare operating margins have gone from 9.30% to 10.10% to the first quarter's 11.7%. In fact, Home Healthcare has increased operating margins for six consecutive quarters. In CareCentrix, since the third quarter of 2005, operating margins have increased from 7.5% to 7.9% to 8.4% for the first quarter of 2006.

As we continue to address margins, we remain focused on controlling factors affecting the direct cost of our services, including wage rates, productivity, benefits, recruiting costs and rising fuel costs. At the same time, we'll continue to focus on opportunities for cost efficiencies and synergies, both at the corporate and operating segment levels.

As we noted in our earnings release, we reported diluted earnings per share of \$0.17 for both the first quarters of 2006 and 2005. During the 2006 period, the special item relating to the settlement of the PRRB appeal had a positive impact of \$0.04 per diluted share; this was offset by an after tax charge of \$0.04 per diluted share in connection with restructuring and integration costs. In addition, the 2006 period included a charge of \$0.02 per share relating to the implementation of FAS 123(R) on equity-based compensation.

Moving on to cash flow, we generated nearly \$15 million in cash from operating activities during the 2006 first quarter. Cash flow was positively impacted by operating earnings, strong cash collections throughout the organization and the timing of certain payroll disbursements.

Our balance sheet has changed significantly as a result of the Healthfield acquisition. In addition to including Healthfield's operating assets and liabilities, let me point out a few of the other significant changes to the balance sheet at April 2nd, 2006 as compared to 2005 year end.

First, we have incurred debt of \$370 million relating to a seven-year term loan that was finalized upon closing the Healthfield transaction.

Second, shareholders' equity has increased by nearly \$66 million. Over \$53 million of this increase relates to the fair value ascribed to approximately 3.2 million shares of Gentiva common stock issued in connection with the Healthfield deal. The remaining change in equity results from quarterly net income, the issuance of stock upon option and employee stock plans, and the tax benefits associated with certain

option exercises.

Third point on the balance sheet: based on the preliminary results of a valuation study of Healthfield, we have added identifiable intangible assets of over \$257 million and goodwill of over \$229 million to the Gentiva balance sheet.

The preliminary valuation is under review and still subject to some change. However, at this point, we believe that the majority of the intangible assets relate to Certificates of Need with indefinite lives purchased as part of the Healthfield transaction. We currently estimate that incremental amortization expense of the remaining acquired intangibles will be between \$3.0 million and \$4.0 million per year.

And, finally, with respect to deferred taxes, we have added assets of nearly \$12 million, representing the tax benefits associated with Healthfield's net operating loss carryforwards. We also added long-term tax benefits of about \$30 million relating to tax-deductible goodwill. These benefits netted within the deferred tax liability account, which relates to the newly established intangible assets.

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 \$71.6 million at April 2, 2006. It's worth noting that, from the end of the first quarter through the first week in May, we have made voluntary prepayments of \$5.0 million on our new term loan.

Before concluding my remarks, let me take a moment to discuss our current view of 2006.

As noted in the earnings release, we are reaffirming our previously announced 2006 outlook reflecting net revenues of \$1.12 to \$1.16 billion and EBITDA of between \$75 and \$80 million. The EBITDA outlook includes equity compensation expense, but excludes any future restructuring charges or integration costs.

As I noted earlier, based on the preliminary results of an asset valuation study of Healthfield, we are now able to estimate amortization relating to intangible assets. We are also continuing to refine our estimates for interest expense, taxes and synergies resulting from the Gentiva-Healthfield integration.

As a result, we have announced that full year 2006 diluted earnings per share is expected to range between \$0.84 and \$0.90. This outlook includes an after-tax charge of between \$0.11 and \$0.14 per share to reflect the impact of new accounting rules on equity-based compensation.

As I noted on our last call, we continue to anticipate positive operating cash flow of about \$50 million and spending up to \$20 million on capital expenditures during 2006. 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: Thanks, John. As we look at the integration of Healthfield, the re-engineering of CareCentrix and our other priorities, it's becoming clear to us that the balance of 2006 will be a very busy period for Gentiva.

We have a lot of very smart people who are now working hard to position the Company for even greater achievements in 2007 and beyond. We're identifying opportunities and developing a strong platform for future growth. Our enthusiasm continues at a very high level.

With that, we're pleased to take your questions

Questions and Answers

Operator: Thank you, Mr. Malone. [Operator Instructions] Eric Gommel, Stifel Nicolaus.

Eric Gommel: Good morning. Can you just break out the Healthfield revenue, I think by Medicare versus managed care versus Medicaid, percentage-wise, compared to just your legacy Gentiva business?

John Potapchuk: Well, Eric, this is John. We had indicated that Healthfield revenues for that one month - actually I think it was like 33 days of activity - represented a total of about \$30.8 million. And the component of that relating to Medicare represented about 90%. The piece that's in Other Related Services is about half of that and so I think, in total, in the 60(%) to 70% range on Medicare.

But I think, Eric, as we move forward, we're really going to be focused more on the specific operating segments in terms of that disclosure. So, if you look at the total - that \$30.8 million - Medicare represented about \$24 million. Medicaid was about \$3.0 million, and the Commercial Insurance is the remainder.

Eric Gommel: Okay, and then my follow-up question really deals with the hospital business from Healthfield. Can you just give us a little flavor this business? Is it more rural or urban? Maybe some information about average length of stay and do you have any information related to the breakout between routine and continuous in-patient levels of care? Thanks.

Ron Malone: Yes. I'll ask Tony to take that. Tony?

Tony Strange: Hey, Eric, it's Tony Strange. You had -- there were like three questions in there, I think. In terms of rural, most of our hospice business is in more rural America. We're very strong in Alabama and in parts of Georgia, so it's not a lot of metropolitan markets. I think that was the first part of your question.

As it relates to length of stay, those are not numbers that we have historically disclosed. However, with that, I'll you that if you look at the national standards we are within those national standards.

And you had at third component of your question, was more related to?

Eric Gommel: Routine versus in-patient versus continuous.

Tony Strange: Kind of the breakout of the products. Most of our business is in routine care. We do very little in-patient care at all. Does that answer your question?

Eric Gommel: Thanks. Yes, just the percentages, but that's fine.

Operator: John Ransom, Raymond James & Associates.

John Ransom: Hi, good morning. Congrats on the fast start. Could you give us the organic Medicare growth ex, I believe it was the Heritage acquisition in the quarter? Thanks.

John Potapchuk: Yes. John, on the Gentiva side, excluding special items, Medicare was 18.5% and excluding Heritage, it's about 15%.

John Ransom: So that's kind of true same-store?

John Potapchuk: Yes.

John Ransom: Okay. That's a good number. And then, secondly, just to get this straight, is the uptick in your guidance almost solely due to the lower amortization costs coming out of Healthfield? It looks like EBITDA was sort of in line-ish, but that the big delta was the amortization. Is there something else that we're missing?

John Potapchuk: Yes, I think, John, a couple of things. Obviously on the positive side is the amortization relative to what we talked about on our last call. As I mentioned, we're continuing to refine things like interest expense and I'm looking at that as being slightly higher than we may have presented on our last call.

And I think the other thing to point out is from a tax rate standpoint. Right now, what we have dialed into our guidance is a rate of about 42% and it's important to note, on a normalized basis, our rate is 39%. But due to the nuances of the implementation of this new FAS 123(R), we've actually had to raise our rate to 42%. The interest piece and the tax rate have caused a decline a little bit, but obviously amortization is a lot better than we talked about last time.

John Ransom: Right and just to be clear, the annual guidance, what number are you using for the first quarter number? Is it the GAAP number or you're taking out cost reports? Are you adding back severance? Or what number should we subtract to kind of get a picture for the rest of the year?

John Potapchuk: The numbers guidance that we've given excludes any future restructuring and integration costs. So this quarter, maybe to answer your question, we had restructuring and integration of about \$2.0 million, on the negative side. But we also had this special item on the PRRB of roughly \$2.0 million on the positive side offsetting that.

John Ransom: So, in other words, since that was offset, the EPS number that you reported is a number that will be subtracted for the balance of the year, so \$0.17.

John Potapchuk: Yes, exactly.

John Ransom: Okay. And then, finally, could you talk about -- I think you'd mentioned before an overhead number, when you combine Healthfield and Gentiva. You got an overhead number, I believe, in the \$65 million range. And kind of where are you running as we speak? Where do you think you might be running second quarter on that overhead number and what's a good number to think about by the end of the year? And I'll stop there, thanks.

John Potapchuk: So John, we had mentioned on a previous call that the Gentiva numbers were running around the mid-\$40 million and that Healthfield was \$22 million. So that's roughly \$65 million or so that you've indicated. And while we haven't provided individual components associated with our guidance, I had mentioned on the last call that synergies that are built in, relative to that baseline number, were about \$2.0 (million) to \$2.5 million.

I think there's a little bit more clarity on that now and it was still moving in the direction of looking at back office components. As I look at it right now, we're looking at a number of \$3.0 (million) to \$3.5 million for this year. But I think, as the year goes one, we'll be building upon that.

John Ransom: Right. I mean, is there any reason why that number couldn't be a whole lot bigger in the out years?

John Potapchuk: You mean a whole lot smaller?

John Ransom: I'm saying the synergy number. I mean, I would think that your long-term target is significantly higher than \$3.0 million.

Ron Malone: That'd be a reasonable assumption.

John Potapchuk: Yes.

John Ransom: Okay. What is it that's making it so low this year versus what it might be in the out years?

John Potapchuk: Well, John, I think, among other things, there's the issue of systems and I'll give you an example. If you take, for instance, our billing centers. We're developing a plan right now that over a period of time will move us to a common platform. But that may not happen for another year and a half to two years. So that's one example of systems issues where we're being conservative in guidance on synergies right now. There are certainly opportunities down the road, as we integrate systems.

Ron Malone: Yes. I think the real bottom line, John and John, is that we're into this about 70, 75 days now. And what we're doing is being very thoughtful about the areas where we can take out costs; areas where we may need to add some resources in order to continue the growth. So I think, as we move in the year, we would expect to make more progress in the area and also expect to be able to tell you a little bit more about our expectations.

John Ransom: Okay. Thanks a lot.

Operator: Matthew Ripperger, Citigroup.

Matthew Ripperger: Hi. Thanks very much, just a couple of questions. You mentioned that you're culling some of the commercial contracts that have been unprofitable. Can you help frame how much of your commercial business is being culled right now and where you stand in that process?

Mary Morrissey Gabriel: Hi, this is Mary. We began a process, as you know, about nine months ago and we then challenged all of our branch operations to look at the contracts on an individual location-by-location basis to make sure that we're managing the mix appropriately and the demand inside of the marketplace.

So we have completely executed on or removed ourselves from a number of contracts on a nationwide basis. We're also careful to make sure that we're not disrupting some of our referral sources in the process who are also helping achieve guidance and feed us, perhaps, some of the business on the specialty side.

So we're taking a very strategic and surgical approach and quite frankly, we're going after some of the most unprofitable business first and foremost and we've seen some positive results from that.

Matthew Ripperger: And how much of that initiative, in terms of getting rid of that unprofitable business, is reflected in this quarter's results?

John Potapchuk: A small amount.

Ron Malone: Yes. I think it's a small amount. I think the other thing to keep in mind, to add to your comment, Mary, is that we wholly expected that there would be some agreements we would separate

ourselves from but perhaps reenter at another time. Because people have to really understand the way our costs are moving and what we really need in order to sustain healthy operations and deliver quality care.

John Potapchuk: Yes. And Matt, when I say a small amount, I mean, if you look at our report, you can kind of walk through our commercial insurance for the quarter was a little bit more than \$103 million.

If you take out CareCentrix, which is all commercial, and you take out about half of the Other Related Services that's commercial, that leaves you, on the Home Health Services side, between \$27 and \$28 million of that commercial business. I think over the past several quarters that number was running roughly \$30 million, so, in total, you have \$1.0 (million) to \$2.0 million.

Matthew Ripperger: Okay, great, and the second question I had is on the CIGNA business. I guess I was a little surprised to see that that was flat year-over-year, given the business that you lost to Apria. Can you just give some commentary on whether the CIGNA revenues that you reported this quarter is a good run rate to going forward? Or do you expect some further attrition in that business in the next couple quarters?

John Potapchuk: I think, Matt, I would expect some attrition in the sense that if you recall our contract change at the end of January. So we still had, if you recall, working that we were involved in DME and respiratory and certain special projects through the end of January and there was a transition beyond that. So, as that winds down, you would expect that that run rate number would decline somewhat also.

Ron Malone: That's right.

Matthew Ripperger: And what's a good run rate to use once you've finished that transition?

John Potapchuk: Well, I think, on previous calls, we had mentioned that we would expect the decline in CIGNA, year-over-year, to be up to \$40 million and last year's CIGNA revenue was around \$250 million. So I would stick with the \$250 million less roughly \$40 million.

Matthew Ripperger: And then the last question I had, just related to hospice, is the hospice caps have been a problem for some, especially companies that have a disproportionate amount of business in rural markets. Can you just comment on where you stand with the Medicare caps and are you comfortable that you can maintain your length of stay and manage under that?

Tony Strange: This is Tony. In terms of the cap, I don't think that we've disclosed any specific information. More of a general comment is that we monitor our cap. We monitor where we are with the caps on a weekly basis and we manage to that number every week and so I can tell you that as of today, I've got no concerns of cap issues in the 2006 cap year.

Matthew Ripperger: Thank you very much.

Operator: Art Henderson, Jefferies & Company.

Art Henderson: Hi, good morning. Just -- I wanted to make sure I understood this. John, did you say that your tax rate to use for the remainder of the year is 42%?

John Potapchuk: Yes.

Art Henderson: Okay. So that's what's in your guidance?

John Potapchuk: Yes.

Art Henderson: Okay and then the level of synergies you have in your guidance now is \$3.0 million?

John Potapchuk: Yes, about \$3.0 (million) to \$3.5 million.

Art Henderson: Okay and previously you had had, what, \$2.0 (million) to \$2.5 million in there?

John Potapchuk: Yes.

Art Henderson: Okay and so there was no -- you didn't feel like that was sufficient enough to raise the EBITDA level that you're projecting for the year?

John Potapchuk: Yes. I mean, I've got the range, that's right.

Art Henderson: Okay. A question just on the DME side, which I know is a small part of your business, but was wondering, now that you do you have a larger, some larger capability than you had before, is there opportunity for you to bring some of the business that you had previously outsourced to bring it in-house, that you can serve with the services that you have in place?

Bob Creamer: Good morning. Hi, this is Bob Creamer. I think we've started the process, as Ron mentioned. We're only about 75 days into this.

We're actually starting to work closely with the leadership of the HME respiratory side and even the infusion side to look at where there are some opportunities. Not just where there are existing sites today, but some opportunities we have, some density on the CareCentrix side around the rest of the country. So, I think, as we progress, we're going to explore those opportunities and take advantage of them where they present themselves.

Art Henderson: And presumably, if you're able to bring some of your existing business in-house, it would probably be slightly more profitable than having to subcontract it out, right?

Bob Creamer: Certainly we think that and certainly -- well, there's some efficiencies in terms of, as well as in terms of inter-Company billing and processing and sales costs and all of that, so yes.

Art Henderson: Right. Okay and then one last question. Obviously the growth that Healthfield has seen in their business, the way they've been able to penetrate some of the Medicare beneficiaries or get more and more of those. Are there things that you've seen that Healthfield is doing or has done, from a marketing standpoint, that you can bring over quickly to the legacy Gentiva business and what are those things, if you've seen them?

Tony Strange: This is Tony. Well, I'm going to answer the question kind of in reverse order. Having spent the last 75 days really getting to better understand Gentiva, I'll tell you that you see much more similarities than you see differences and how we go about gaining new patients and how we approach sales and marketing.

And I think that's the tone of this call, is that I think we're all optimistic about where we are from an integration standpoint, and I think the reason for that is that we've found that the two businesses are much more similar than they are being different. Does that answer your question?

Art Henderson: Okay. So there's nothing that you guys have done at Healthfield that is dramatically

different than what the guys at Gentiva have done, historically?

Tony Strange: Yes, I think it's all comparable. The biggest difference is what Gentiva today is doing and Mary, Ms. Gabriel, mentioned it earlier. That nine months ago we started really focusing on identifying non-profitable business. If anything, it's the same process Healthfield went through, but did it four or five years earlier.

Art Henderson: Okay. That's fair. Thanks, Tony.

Ron Malone: I would add to what Tony -- I think that, really, the mix is the big differentiator there.

Tony Strange: Yes.

Ron Malone: Thank you, Art.

Art Henderson: Okay.

Operator: Balaji Gandhi, Oppenheimer & Co.

Balaji Gandhi: Good morning. I just had two questions. One, John, you had talked about it, when you talked about the guidance in the \$3.0 to \$3.5 million in integration synergies. You did mention you wouldn't include any additional restructuring or integration costs. Is that implying that you feel you might have more than the \$2.0 million that you had this quarter?

John Potapchuk: Yes. I think, as we go forward, the accounting rule as such now, Balaji, that really, as those costs are incurred they are recorded and as we mentioned earlier, we're still in the various areas going through our integration process. So it's a little bit difficult to fine-tune what those costs would be. I think certainly there will be some, as the year goes forward. I just can't give you a fine estimate on it at this time.

Balaji Gandhi: Okay, and then on the balance sheet, you had a \$20 million or about \$20 million increase in deferred revenues. Could you walk through that a little bit?

John Potapchuk: Yes. That's really -- the bulk of that is really coming from Healthfield. In the past, our deferred, the old former Gentiva deferred revenues were included in our Other Accrued Expenses and now they're significant enough to break out. Basically, what the bulk of that is, is as you begin a Medicare episode, you're recording revenue on a certain amount per day, these are unrecorded revenue associated with open Medicare episodes, for the most part.

Balaji Gandhi: Okay and so most of it is related to Healthfield then?

John Potapchuk: Yes, exactly.

Balaji Gandhi: And how many Medicare episodes did you do in the quarter? Or did you complete in the quarter, I should say?

John Potapchuk: I don't know if I have that handy and generally, on the operating information, I don't have on my fingertips. Certainly, I know, on the Gentiva side, we're up versus prior year, but don't have access to that right now.

Balaji Gandhi: Okay, thanks.

Operator: Douglas Tsao, Lehman Brothers.

Douglas Tsao: Hey, good morning, guys. Congratulations on the quarter. A question for you on the gross margin. It came in probably a little higher than we were sort of expecting and I was wondering if, on a go forward basis, that you thought that this quarter's margin was about right? Or do you think we should see a further uptick as we see some improved mix shift, with getting Healthfield for an entire quarter?

John Potapchuk: Yes, hi, Doug. This is John. I mentioned in the remarks that the uptick in gross margin, 250 BP, was, for a significant part, due to the change in mix.

I will say that there's a piece of that relating to that one-time special item, the \$1.9 million. That's about half a percent (0.05%). The remaining change, I'd say it's pretty much split between improvements in mortgage on the Gentiva side and the inclusion of Healthfield, which obviously has had higher gross margins due to their Medicare mix.

So, when you think about the fact that what we have in the quarter, Healthfield for really one month, there would be some expectation of some further improvements in margin due to that mix, just offset by the fact that we shouldn't have that positive special item going forward.

Douglas Tsao: Yes. Okay, and then just a quick, just to sort of review again. You said you were going through the managed care contracts. How far along would you say, what percent would you say that you guys are in that process and do you have a timeframe when you might get that completed?

Mary Morrisey Gabriel: Yes. Certainly we have actually contacted and been in touch and in negotiations with, quite frankly, over 50% of all the contracts, through a significant number of contracts in-house. Quite frankly, where we have not had a favorable response, we have certainly sent some notifications out to them of our intent in terms of the future to divest of some of those businesses if we cannot move it forward in the right direction.

Quite frankly, we continue to invest in the managed care sales team to show its progress and I'd like to say I would hope or expect, quite frankly, by the end of the third quarter we can better report on some significant changes.

Ron Malone: Yes. I would expect, later this year we would have made a full turn.

Mary Morrisey Gabriel: Yes.

Ron Malone: But it's a continuous process, I mean, anyway. We're going to have to continually go back as long as capacity is tight and as they realize that perhaps what we have requested in terms of fair compensation for the service levels we deliver, I think some of those will come back in. That really is a continuous process.

Douglas Tsao: Okay, great. Thanks a lot, guys.

Operator: Brian Tanquilut, Jefferies & Co.

Brian: Thanks. John, just a quick housekeeping question on the share count. Since we closed the Healthfield acquisition in February or late February, how are we supposed to look at the share count for Q2?

John Potapchuk: I think, Brian, what we have for the full year would be a number between 27.5 (million) and 28 million.

Brian: Okay. That makes sense. All right. Thank you so much.

John Potapchuk: Sure.

Operator: [Operator Instructions]

Ron Malone: Okay. We'll conclude the call. I'd like to thank each of you for your participation this morning and for your continued interest in Gentiva. We're excited about the prospects for the new Gentiva and look forward to sharing additional information about our progress on our next call. Good day.

Operator: Thank you. This concludes today's teleconference. Please disconnect your lines at this time and have a wonderful day.