FINAL TRANSCRIPT

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GTIV - Q4 2005 Gentiva Health Services Earnings Conference Call

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PRESENTATION

Operator

Welcome to today's Gentiva Health Services fourth-quarter 2005 earnings conference call. Today's call is being recorded and will be available for replay beginning at 12:00 PM Eastern standard time. The dial-in number is 973-341-3080 followed by entry of PIN number 7044852. The call is also being broadcast and is accessible through Gentiva's website. There will be a Q&A session following management's opening presentation. We ask that you limit yourself to one question and one follow-up. At this time all participants have been placed in a listen-only mode and the call will be open for your questions following the presentation. (OPERATOR INSTRUCTIONS)

It is now my pleasure to turn the floor over to Mary Morrisey-Gabriel, Gentiva's Chief Marketing Officer. Miss, you may begin.

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

Thank you. Thank you and good morning. Thank you for joining us this morning. I'm Mary Morrisey-Gabriel, Senior Vice President and Chief Marketing Officer for Gentiva Health Services. And this is Gentiva's fourth-quarter and fiscal 2005 earnings call. With me today are Gentiva Chairman and CEO, Ron Malone and our CFO, John Potapchuk and other key executives. We hope that each of you has 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 and are subject to various risk factors and uncertainties as outlined in our filings with the Securities and Exchange Commission. Accordingly, actual results may differ materially from those anticipated in any forward-looking projections or comments on this call today. Please refer to the forward-looking 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.

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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 website within 36 hours. I would also like to mention that we are using a difference conference call provider today and ask you to bear with us as we implement this new relationship.

Following today's prepared remarks we will open the calls 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 the Company's acquisition of the Healthfield Group and a discussion of our fourth quarter and fiscal 2005 performance.

Ron Malone - *Gentiva Health Services - Chairman and CEO*

Thanks, Mary. Good morning everyone and thanks for joining us. This past Tuesday was a transforming event for Gentiva as we completed our acquisition of The Healthfield Group. We want to extend a warm welcome to our new Vice Chairman, Rod Windley, and our new Executive Vice President and President of Gentiva Home Health, Tony Strange, and to several thousand other Healthfield employees as we move forward with the integration and focus on the opportunities awaiting us.

While the Healthfield transaction closed in 2006, the work behind it may possibly be Gentiva's most significant accomplishment in 2005. The opportunities ahead are very exciting. We've become a $1 billion company and a top 10 provider of hospice services. We've substantially increased our Medicare participation, expanding our office network to 400 locations and extended our overall leadership in the homecare industry.

We explored many acquisition candidates because of our long-held belief that home care has a bright future with an important mission in serving our aging population. We pursued this particular opportunity because of the extraordinary fit with our strategies of focusing on areas of solid demographic growth, entering hospice, improving profitability, diversifying mix and strengthening the Company's leadership team.

With the addition of Healthfield, we will be able to accelerate certain initiatives that we believe will lead to new revenue opportunities. This acquisition strengthens and expands our presence in the Southeast which has favorable demographic trends and includes important CON states. It further diversifies our business mix, provides a meaningful platform into hospice and expands into new business lines such as DME, respiratory and infusion. With this transaction, we also expect to expand our current specialty programs to a number of Healthfield locations.

And finally, we have strengthened our leadership team with this transaction. Tony Strange brings to Gentiva a deep understanding of home health and hospice operations and demonstrated skill in achieving growth and profitability. With his appointment to lead our home health care operations, we've been able to add strength to the CareCentrix team by naming one of our seasoned executives, Bob Creamer, to head that business unit. And later today we will be announcing the election of Brian Silva, our new Senior Vice President of Human Resources, who comes to us with extensive experience with a large public company.

Because of our talent and experience, I expect us to move forward with a careful and disciplined integration that will help us realize our objectives. As we gain traction in the coming quarters, we will be better able to understand how rapidly we can expand hospice and specialty programs into new locations; what kind of synergies we can achieve; and how soon we can make them happen. We will gain greater clarity on the vision as the integration plans unfold in the coming months.

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We are highly confident in the long-term benefit of this transaction. But because of the predictable issues before us, we've taken a conservative view as to the impact of synergies in our 2006 outlook. Know that we will approach synergies head on, yet thoughtfully, mindful of the opportunities in this area as well as the impact of change on operations and relationships.

We still have a lot of integration work ahead of us and we also have to keep our businesses moving forward. In fact we've emphasized to all our employees that we must maintain focus on our patients, our customers and our people while the integration is underway. I believe that this prudent and disciplined approach will make the benefits of this transaction all the more rewarding for the longer term.

Turning back to our 2005 performance, it was clearly a period of both accomplishments and challenges. Among the accomplishments: continued double-digit Medicare growth; the expansion of our specialty programs and their contributions; an increased presence in Utah through the acquisition of Heritage Home Healthcare; our ongoing efforts to maintain and improve the quality of care we provide; the signing of a new three-year CIGNA contract, including an expansion into new geographies; investment in our new clinical management system and the launch of our branding initiative, including a new logo and website.

Although we are proud of these key accomplishments, much work needs to still be done, including: a continued focus on capacity and productivity issues related to our field clinicians; our drive to obtain better home health care pricing from commercial payers; the ability of CareCentrix to gain more traction in the market; and, of course, the successful integration of Gentiva and Healthfield.

Turning to our Home Healthcare Services segment, the 6.4% increase in net revenues for the fourth quarter was due primarily to 20.4% growth in Medicare including Medicare special items, offset by lower volumes of commercial home care business as we pursued better pricing and continued to feel the impact of Hurricane Wilma in Southeast Florida. The more than 65% increase in Home Healthcare operating contribution was also due primarily to Medicare growth and the Medicare special item of $3.6 million.

Specialty programs continue to be a strong contributor to Home Healthcare Services results. We ended 2005 with more than 150 specialty locations and we intend to continue our expansion this year including entering into new markets available through Healthfield.

Regarding capacity, we have a number of initiatives underway. We've deployed a new applicant tracking system. We're improving our candidate engagement and hiring processes. We've rolled out new clinical associate orientation programs, which are tailored to individual clinical disciplines. And we're in the early stages of piloting a new clinical management system, including the use of point of care devices by our clinicians inside our patients' homes. Within the last two weeks, we launched the pilot of the first location and we are off to a very good start. The system was well received by staff and patients alike.

All of these efforts are aimed at improving clinical outcomes -- as well as clinician recruitment, loyalty, productivity, retention and qualifications -- so that we can ultimately convert more referrals to admissions and maintain higher levels of care.

We've also been working to improve our Home Healthcare Services margins through our managed care operations strategy. This strategy has three key components: repricing of low margin managed care business, freeing up capacity to accept more Medicare, and terminating unprofitable contracts as needed. We're also currently negotiating with a number of Medicare Advantage payers to ensure we obtain appropriate pricing for the care of these patients, especially the ones served under our specialty programs. By changing or ending commercial contracts that don't meet our standards of profitability or clinical quality, we will achieve better long-term results, including pricing and profitability suitable to the value of our services and quality outcomes for our patients.

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Clinical quality is a key focus. An analysis of CMS national home health quality figures for Gentiva branches has shown that a Gentiva patient today is less likely to be hospitalized, less likely to need urgent and unplanned medical care, and more likely to remain at home after a home care episode than the national averages.

Still, the pursuit of quality is an ongoing process and we will continue our focus on improved clinical outcomes and care protocols this year. I might add that, when it comes to clinical outcomes, Gentiva and Healthfield have complementary results in a number of areas so we have a real opportunity to share best practices for the benefit of our patients in the entire organization.

And while clinical quality defines who we are and what we do, it also contributes to the improvement of our financial results. We believe that it will continue to play an important role in determining the future government reimbursement. That is why Gentiva's clinical leaders serve on government and industry panels to provide input on clinical quality measures and pay for performance reimbursement policies.

We also continue to hear encouraging words from government officials about the benefits of home and community-based care over institutional care. However, this hasn't translated to pervasive support for our industry in the halls of Congress. By a very narrow vote, we saw the recent elimination of the '06 Medicare market basket increase as part of a broader deficit reduction bill, although a rural add-on has been implemented. I might add that the Medicare impact will be mitigated somewhat by the fact that Healthfield has a larger complement of rural offices than Gentiva.

And while we will always deal with these challenges, we remain optimistic about the future of government support for homecare. Homecare just makes sense for patients and payers. We will heighten our efforts to persuade legislators that fair and predictable reimbursement is necessary to ensure that quality care is available for our nation's aging population as we work to maintain a high quality and affordable health care system in America. Turning to our CareCentrix business segment, we experienced a 14.9% decrease in revenues and about a 56% decline in operating contributions for the fourth quarter of '05. This was due primarily to the changes in certain relationships that we've discussed before. On the last call, we said we would move quickly to make adjustments in our CareCentrix operations to “right size” them for the transaction volumes we expect this year. We also said we would we would reevaluate and streamline our operating processes and we've made progress on both areas. For example, we streamlined our operations in East Hartford, Connecticut, closed a similar facility in Houston and reduced our workforce by more than 100 positions. The remaining work has been consolidated within our Tampa and Phoenix facilities.

Gentiva's fourth-quarter 2005 revenues from the CIGNA relationship were $65.2 million, down $3.3 million or 4.9%. Our relationship with CIGNA remains strong, although it will account for a lower percentage of total Company net revenues now that we've completed the acquisition of Healthfield. We're currently operating under the new CIGNA contract which extends our relationship to 2009, and we look forward to the greater stability and possible geographic expansion opportunities that this agreement is expected to provide.

I'd now like to turn the discussion over to our CFO, John Potapchuk, for additional comments on our financial performance as well as updated information related to 2006.

John Potapchuk - *Gentiva Health Services - EVP and CFO*

Thanks, Ron, and welcome everyone. I hope all of you have had a chance to review the financial information in yesterday's news release. Also, please note that there a number of items affecting our presentation format and the comparability of income statements between the 2005 and 2004 periods, including the fact that the fourth quarter and full year 2004 contain an additional week of activity. You'll find more information on these items in the notes to our earnings release.

We've continued to see a change in our business mix that comes with our focus on higher margin business. In the fourth quarter of 2005, Medicare, excluding special items, represented over 31% of total net revenues verses more than 26% in the prior year period. At the same time, the revenue contribution from Medicaid and Local Government increased slightly, while the Commercial

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Insurance and Other category declined 5% points between the two periods. CIGNA's contribution to total net revenue was down about 6/10th of a percent to 29.8% of total net revenues in the fourth quarter of 2005.

Our fourth-quarter 2005 gross profit was about $2.4 million lower than the same period of 2004. As a percentage of revenues, gross profit margin decreased from 38.5% to 38.0% between the fourth quarters of 2004 and 2005. The decrease is attributable primarily to changes in various commercial relationships in the CareCentrix business as well as some slight decline in Home Health Services margins resulting from increases in insurance and other employee benefit costs. These decreases were offset somewhat by favorable changes in our business mix due primarily to revenue growth from our higher margin specialty programs. In addition, margins were positively impacted by 0.9 percentage points due to the incremental Medicare special item recorded in the 2005 fourth quarter.

Selling, general and administrative expenses were $72.3 million in the 2005 fourth quarter, a decrease of $4.7 million compared to the fourth quarter of 2004. The entire difference can be attributed to costs incurred during the extra week of activity in fiscal 2004. As we compare SG&A results during the fourth quarters of each year we also incurred in the 2005 period incremental field costs to service increased Medicare volume as well as CareCentrix restructuring costs. These costs were offset by: benefits associated with lower corporate expenses, the disposition of an underperforming branch location and the absence of a $1.4 million write-down of capitalized software, which was recorded in the prior year period.

Pretax income as a percentage of net revenues was about 4.8% in the fourth quarter of 2005 verses the 3.8% figure reported in the prior year period. Excluding special items and restructuring and other charges, the pretax income percentages would have been about 3.6% in both the 2005 and 2004 periods.

Turning to our business segments, the improved operating contribution in our Home Healthcare Services segment resulted from continued strong increases in Medicare revenue driven by the specialty programs as well as some improvement in clinical associate productivity and the effect of the Medicare special item. Excluding the special items, operating contribution as a percentage of segment revenue was 10.2% in the 2005 fourth quarter as compared to 7.8% in the 2004 period. This marks the fifth consecutive quarter of improved operating margin performance.

As we continue to address margins our focus remains on controlling factors that impact the direct costs of our services: wage rates, productivity, benefits and recruiting expense. At the same time, we will continue to focus on opportunities for cost efficiencies, both at the corporate and operating segment levels.

Turning to the CareCentrix segment, operating contribution margins declined primarily for a number of reasons. First, there was a positive adjustment in the 2004 period relating to changes in estimated costs as we completed the reconfiguration of the HME network. Second, lower revenue and margins were recorded in the 2005 period as compared to the prior year period due to the conclusion of the TriWest Healthcare Alliance contract as of November 29 of 2005. And, finally, in the fourth quarter of 2005, we recorded charges associated with the restructuring plan reflecting the closing and consolidation of two of CareCentrix' four regional call centers. This plan responds to changes in the nature of services provided to CIGNA members under our new contract, which commenced in early 2006.

We generated cash from operating activities of $10.6 million during the fourth quarter of 2005 and nearly $20 million for the full year. This amount is consistent with the expectations that we discussed on our last earnings call, but below the nearly $35 million of operating cash flow generated during fiscal 2004. The reduction in year-over-year cash flow resulted from a reduction in cash received from Medicare for the PRRB settlements and working capital requirements relating to certain commercial accounts and the Heritage acquisition earlier in 2005.

At year-end 2005, net accounts receivable decreased by about $2.7 million from the end of the third quarter. Our day sales outstanding, or DSO, at January 1, 2006, was 57 days down two days from the end of the third quarter and consistent with the end of 2004.

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Regarding share repurchases, we bought over half a million shares of our common stock in the fourth quarter at a cost of about $7.6 million, for an average cost per share of about $15.10. For all of 2005, we repurchased more than 1.3 million shares at a cost of about $21.1 million, or an average cost per share of about $15.92.

Before I get to our 2006 outlook, I'd like to briefly discuss the financing of our Healthfield acquisition. I hope all of you saw yesterday's closing release, which included some of the details. The purchase price included approximately $403 million in cash and approximately 3.2 million shares of the Gentiva common stock.

Relating to the transaction, Gentiva has secured a $370 million term loan maturing in 2013 and a new $75 million revolving credit facility maturing in 2012, which remained undrawn at closing except for the reissuance of letters of credit totaling about $20 million. Proceeds from the term loan and a portion of Gentiva's available cash on hand were used to fund the cash component of the purchase price, including the repayment of Healthfield's existing debt as well as transaction costs and other expenses. We believe that the combined organization will generate sufficient cash flow to reduce our debt over the stated time period.

As I turn to our updated view of 2006, I think it is worth repeating what Ron said about properly calibrating our expectations for this year. While we're highly optimistic about the future benefits of the Healthfield transaction, it's important that we take a careful and disciplined approach to the integration. We need to be firm in managing our expectations and determining how changes made this year will impact our reported results for 2006 and beyond. For that reason, we are being conservative in our view of the benefits we may realize from synergies resulting from the integration this year.

However, we are including the following factors in our 2006 outlook: first, the impact of Healthfield's financial results now that the acquisition is complete; secondly, the freeze in 2006 home health Medicare reimbursement rates except for rates in designated rural markets; and, finally, new accounting rules for equity-based compensation, which became effective for us at the beginning of 2006.

The range of our 2006 outlook, with respect to net revenues and EBITDA, is included in our press release and reflects net revenues in a range of $1.12 (billion) to $1.16 billion and EBITDA between $75 (million) and $80 million, including the charge of about $5 million relating to equity based compensation. The 2006 information excludes the impact of any restructuring charges relating to the Healthfield acquisition.

The outlook also anticipates positive operating cash flow of about $50 million, capital expenditures of up to $20 million and depreciation and amortization of about $12 million before reflecting the amortization of intangible assets acquired in the Healthfield transaction. On this last point, the incremental amortization of intangibles will be determined following an upcoming asset valuation study. This is one of the reasons why we have decided not to provide projected earnings per share information for this year, but instead have focused on EBITDA as a more useful measure of the Company's operating performance.

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

Ron Malone - *Gentiva Health Services - Chairman and CEO*

Thanks, John. By the way, John, I'd like to congratulate you on your promotion to Executive Vice President which will be formally announced in a press release later today.,

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John Potapchuk - *Gentiva Health Services - EVP and CFO*

Thank you.

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Ron Malone - *Gentiva Health Services - Chairman and CEO*

Due to the Healthfield acquisition, our priorities for 2006 have changed somewhat and I'd like to briefly review those before we go to your questions. Our priorities include: a careful and disciplined integration that will over time capitalize on the opportunities and synergies of the Gentiva Healthfield combination; a continued drive for Medicare home health growth, including our specialty programs based on our expanded platforms in the payer segment; a growth and expansion of the hospice business; a continued focus on capacity and productivity of field clinicians; an ongoing drive to achieve better pricing from our commercial insurance business; the reconfiguration of our CareCentrix model to achieve greater traction; and the promise of excellence in clinical care and customer service by delivering consistency, compassion and superior outcomes.

That sums up our comments for the fourth quarter and fiscal 2005. We will now take your questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) John Ransom with Raymond James.

John Ransom - *Raymond James - Analyst*

Good morning, congrats on getting the deal closed. When we looked at your third quarter transcript, I know you thought at that time that Healthfield would be at least 10% accretive to your '06 EPS and, given the uptick in stock option expense and amortization, it looks like that is not the case. Was it just something that we misunderstood from the transcript or was the non-cash expense higher than you thought back when you initially were looking at the deal?

John Potapchuk - *Gentiva Health Services - EVP and CFO*

John, this is John Potapchuk. A couple of points. I believe the comment we made about at least 10% accretion was on the call relating to the Healthfield deal, which was early January. On our last earnings call, I believe what we said at that time was our initial outlook was in a range of between $0.83 and $0.92. At that time, that was contemplating the Medicare rate increase and I believe we clarified that that did not include the stock option expense.

If you take that range of $0.83 to $0.92, take out between $0.12 and $0.15 on the freeze, take out the options of $0.11, you'll be somewhere in the range of $0.60 to $0.68. I think if you do the math and again, there's still some -- we haven't resolved the amortization of intangibles, but given that as a baseline, I think what you see is the Healthfield acquisition would be accretive by more than 20%.

John Ransom - *Raymond James - Analyst*

Okay. It looks like the Healthfield EBITDA is kind in a kind of $55 million-ish implied range, if we peel back the options. Is that accurate at the high end of your guidance or are we thinking -- I know you said it was $50 million on a trailing basis, but is kind of $55 million-ish the contribution we're looking at for' 06?

John Potapchuk - *Gentiva Health Services - EVP and CFO*

On an annualized basis, but keep in mind when you have 10 months of activity --

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John Ransom - *Raymond James - Analyst*

But on an annualized, it looked like about $55 million?

John Potapchuk - *Gentiva Health Services - EVP and CFO*

Yes, that is pretty close.

John Ransom - *Raymond James - Analyst*

I guess the other question, I mean obviously they had more EBITDA than you guys did and you guys are leveraging up to buy them, so it's kind of an interesting -- it's not a traditional deal from that standpoint. Is there anything, as you look at your Medicare margins and you look at their Medicare margins and you look at their practices in that line of business, is there any kind of reverse synergy, if you will? Are there things that you are learning from how they've gone about that business that can be applied to the Gentiva Medicare revenues?

Ron Malone - *Gentiva Health Services - Chairman and CEO*

Yes, John. Good morning, this is Ron. I think a couple of things. We've studied carefully, as you might expect, their methodology for managing care and interacting with physicians and compared it to ours and we believe that their methodology is superior and we will be adapting that. Likewise, we've looked at what we believe is a revenue synergy with introducing our specialty programs into a number of their markets to allow them to grow the more specialized parts of the business. They have, heretofore, been a more general nursing business and we want to keep that up. But we also believe there's ability to add those tools into the market, open those specialty programs and allow them to accelerate the growth of certain parts of their business by distinguishing the type of care and the approach that they take. So those are two things.

I might also add that we're studying very carefully the way they managed the productivity of their field clinicians and essentially relate that productivity back to a variable wage rate. We have been looking at this ourselves and are more likely to move in that direction, which would we believe give us an improvement in direct cost of labor, and enhance and improve an uptick in the gross margin that that Medicare brings.

John Ransom - *Raymond James - Analyst*

I understand. Some of these geographies have significantly lower business per episode than the average. Is that something as you move to a variable rate model with your nurses and clinicians and you move maybe closer to their visits per episode on certain HHRGs, is that where simplistically us looking outside -- is that how we should think about the productivity pick-up? I know that is oversimplifying, but I've always understood you guys to run a little bit higher than the average on that metric.

Ron Malone - *Gentiva Health Services - Chairman and CEO*

It really doesn't relate at all to visits per episode. It really doesn't relate to it at all. What it relates to, John, very specifically is if we set the base salary -- let me give you the comparison of the methodologies. We would set the base salary of a nurse or a therapist based upon achieving a certain number of visits. And that causes us to then have essentially a fixed cost of labor on a single salary clinician. If that clinician falls below that expected level of productivity for any reason, we do not today have a methodology for their pay changing.

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In the Healthfield world, they are giving full benefits to caregivers that achieve a predicted level of productivity. Yet, if they -- let's say you set that expectation upon 30 visits a week. If they make 33 visits, they make more money. If they make 28 visits, they make less money. So what they have essentially done is outsourced that responsibility for productivity back to the caregiver. And that is really an amalgam of the sort of traditional per-diem type of caregiver married with full benefits, access to health benefits and that sort of thing.

So that is the model we will now have in the Gentiva business -- more to that Healthfield model.

John Ransom - *Raymond James - Analyst*

And, finally, is the options hit bigger than you were thinking? Does that relate to some of the new executives coming on or is it because we had had a number historically of about $2 million and it's now moved up to $5 million. Is that a function -- I know it's not a function of your stock price. Is it a function of giving out more options to some of these new executives?

Ron Malone - *Gentiva Health Services - Chairman and CEO*

You would understand how we will absorb that expense vis- -vis the vesting period and that sort of thing. I will tell you that it was a higher number of options because we thought it was critically important to bring together the management team and get them in lockstep with the value we expect to create.

John Ransom - *Raymond James - Analyst*

Okay. All right. I'll stop there, thanks so much.

Operator

Eric Gommel with Stifel Nicolaus.

Eric Gommel - *Stifel Nicolaus - Analyst*

Good morning. When you look at your expectations for the integration of Healthfield, what kind of timeline are you looking at for a full integration? And if you could talk a little bit about how the systems between Healthfield and yourself match up and what might be the -- what could make the integration smoother and what are the potential pitfalls?

Ron Malone - *Gentiva Health Services - Chairman and CEO*

A couple of questions that you had there. First as it relates to time lines, as you might imagine, we have short-, mid-, and long-term objectives there, depending upon the risk involved and, of course, the reward involved of achieving those. I believe we will quickly bring together the operating structure within Home Health. Really making sure that we protect the people and the relationships that they have is job one.

We are also laying out plans now to look at areas such as the billing centers, how we support the back office billing and A/R functions. That would tie both into certainly understanding the relative costs involved of those centers, as well as systems. Today, bridging over to that part of your question, we are operating on different systems. Healthfield will soon bring up a new general ledger system that we would expect to migrate over to in time.

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On the home health clinical, systems we will likely continue to operate separate systems until such time we introduce the new clinical management system in a broader rollout, which we would anticipate during the first quarter of '07. I think that, again, I don't think that that will have probably will relate more to synergies in the back office than it would be in the branch system.

Now, while we are hopeful of increasing productivity and retention of field clinicians, we have not baked in front-end synergies, if you will, into our expectations. Really, all of our expectations as it relates to synergies deal with or as it relates to cost synergies would relate to corporate support functions as well as the billing and direct support of the business unit.

John Potapchuk - *Gentiva Health Services - EVP and CFO*

And those synergies that Ron was referring to, as we talked about on our opening remarks, we've taken a very conservative view of that with respect to 2006. And have really dialed in items that certainly we're aware of today, to the extent there's been a change in certain senior management members, we've dialed that in. The remaining portion of potential synergies we're looking for is sometime down the road.

Eric Gommel - *Stifel Nicolaus - Analyst*

Okay. My follow-up question. Healthfield also has, I think, a fair amount of managed care business. Is there anything that you can gain from their managed care business? I mean yours is very involved, but is there any potential opportunity there -- maybe contracts you didn't have or a business that you didn't have there?

Ron Malone - *Gentiva Health Services - Chairman and CEO*

I think what we gain is the discipline to continue down the path that we're on, which is improving the quality of that pricing in exchange for the services, the value of the services we deliver. I believe that Healthfield, while they do have some managed care business, has been diligent in making sure that those were win-win agreements. And as we mentioned, we are on that path within our Home Health group today.

Operator

Art Henderson with Jefferies & Company.

Art Henderson - *Jefferies & Co. - Analyst*

Good morning. I was wondering if you could do sort of, again, and I know this has kind of come out in different pieces, but if you could just lay out exactly what your plans are as far as the integration process goes over the next four quarters? Exactly what you're focusing on now as opposed to what we should be looking at and expecting over the next three or four quarters?

Ron Malone - *Gentiva Health Services - Chairman and CEO*

The first thing that we're focusing on is to get the operating structure really very, very clear for people. We want to make sure we are very clear about the goals we have to achieve and the business this year, and make sure that Tony comes in, has an opportunity to work with the senior leadership team and add clarity about what the responsibilities are and what we have to achieve this year. Make sure that we protect the revenue sources. To me that is job one.

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We will also be running very separate tracks. We have put together a team of people to guide the integration process. They are very separate tracks, the sales which would include the amount of salespeople we need to support the anticipated growth, a merger of incentive plans, a single incentive plan, the reporting systems we need, that sort of thing.

We have another group working on what would you expect to be the HR, the issues around benefit structure and that sort of thing. That is something that we may take advantage of, some of those changes midyear, but some also will be at the beginning of next year. We have the Technology Solutions Group working to lay out the integration of various systems. I would say that as Healthfield, I mentioned, comes up on the new general ledger system, we will likely move to that system ourselves. They are continuing to work on the point of care system and expanding their plans to include the Healthfield branches. Now the application itself is highly scalable. It's just a matter of planning a broader integration involving more people and more offices.

We have a group that is focusing on introducing the specialty programs into the Healthfield markets where we don't operate those specialty programs today. That will be in play very quickly. We view that as a revenue, synergy, an opportunity for revenue synergy so that will be in play very quickly.

We have in play right now the addition of about six hospice de novos. We are hoping to accelerate that during the year and maybe accomplish more. I think we'll have I believe we will have the basics of the integration well in hand probably later in the year, yet it could be in total something more like a 24, 36 month process to see all those synergies.

Art Henderson - *Jefferies & Co. - Analyst*

Okay.

John Potapchuk - *Gentiva Health Services - EVP and CFO*

And also maybe just one or two more remarks. Ron described a number of the processes we're going through and I think it's important to also emphasize the disciplined approach that we are taking. And Ron mentioned the fact that we have six different teams and they're made up of team leaders on both sides from both organizations. We have met several weeks ago. We have weekly conference calls. We're meeting again next week to really kick it off now that Healthfield is part of Gentiva. We're taking a very disciplined approach in each of these functional areas.

Art Henderson - *Jefferies & Co. - Analyst*

Okay, it that is helpful. John, did you say that there were some synergies in your guidance for EPS?

John Potapchuk - *Gentiva Health Services - EVP and CFO*

A small amount really relating to -- I'll give you a couple of examples. Rod Windley, who is now our Vice Chairman, is no longer a full management member. So there are salaries relating to that. The fact that while we've had -- each organization has had separate audits, we will now have one audit and there will be some degree of savings there. Those sorts of things I've dialed into our guidance.

Ron Malone - *Gentiva Health Services - Chairman and CEO*

And, Arthur, I believe we will be in a position to give you more clarity when we released probably the Q1 earnings. And we'll make notes and (technical difficulty)

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Art Henderson - *Jefferies & Co. - Analyst*

And then last question and I'll jump back in the queue. Are you going to be doing anything different with respect to the Healthfield or the billings that Healthfield is doing? Are there going to be a delay or are you going through sort of a cleaning process and making sure that those bills are clean before you submit them to CMS? So, in other words, are we going to see some increase in DSOs here over the next couple of quarters?

Ron Malone - *Gentiva Health Services - Chairman and CEO*

I don't anticipate any appreciable difference in the DSOs. We will take a common approach to compliance, which, as you know from our past practice we do have a review process prior to submitting it. But as we plotted it out, we don't think there will be any appreciable difference in DSOs.

Art Henderson - *Jefferies & Co. - Analyst*

Okay, thank you.

Operator

Larry Marsh with Lehman Brothers.

Larry Marsh - *Lehman Brothers - Analyst*

Good morning, John and Ron. Let me see, I guess what you are saying on synergies you're not quantifying the impact but it sounds like both in your prepared comments and response to Art's question that you're only assuming the obvious savings, such as salary and audits, and are not building in other opportunities of cost savings in calendar '06, is that correct?

John Potapchuk - *Gentiva Health Services - EVP and CFO*

Yes, just minimal amounts, Larry. If you need to press me for a number we're looking at somewhere in the neighborhood of $2 (million), $2.5 million that is built in.

Larry Marsh - *Lehman Brothers - Analyst*

Okay, I see. And, Ron, you are saying you could give us an update as to what that figure could like look like at the end of the first quarter?

Ron Malone - *Gentiva Health Services - Chairman and CEO*

Yes, yes. I think we'll have a better idea of what our -- what we can achieve during this year and give you a little bit better idea of how the total integration is proceeding and will proceed, including sort of what that end date might look like and probably more clarity on what we would expect to achieve long term.

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Larry Marsh - *Lehman Brothers - Analyst*

Secondly, just in terms of your guidance. I think, John, you said you would not anticipate guiding to a per share number this year, given some of the moving pieces on intangibles, amortization and other things. Is that right, or would you update us once you know the exact period over which you'd amortize intangibles?

John Potapchuk - *Gentiva Health Services - EVP and CFO*

I think that this valuation study that we will conduct, Larry, is going to take a little bit of time. We will put certain estimates into our quarterly results. Right now, I would say probably for the first couple of quarters of the year. And as we get further clarity on what that valuation, how that valuation is coming along, we'll certainly be sharing that over time.

Larry Marsh - *Lehman Brothers - Analyst*

Is it fair to say that in your footnotes you're estimating roughly $12 million of annualized intangible amortization expense from Healthfield currently?

John Potapchuk - *Gentiva Health Services - EVP and CFO*

Yes. And really, Larry, in terms of a back of the envelope sort of thing. If you look at the acquisition costs and we're saying -- and again, just based on some general research I've been doing, roughly 25% of that might be reflected as identifiable intangibles. If you assume a 10-year amortization on that, that's really how I'm coming up with the $12 million. But what this valuation study will do we'll get very specific on how much of the intangibles relate to things like non-competes or referral sources or trademarks or certificates of need. And each of those that have varying lives. We just want to wait till that study is complete before we fine tune our numbers.

Larry Marsh - *Lehman Brothers - Analyst*

Okay. So I guess the message is it could be somewhat different or it could be a -- it sounds like you are taking a pretty conservative view on what that cost could be. I guess there are two other things I wanted to make sure I understood. You're saying $0.12 to $0.15 of earnings impact because of the Medicare home health freeze offset by some of the mix on rural add-ons. I think John suggested that in an earlier question about $55 million of EBITDA for Healthfield. Have you given a ballpark estimate of what the impact is of the Medicare home health freeze for Healthfield on an annualized basis that is obviously reflected in that net $55 million?

John Potapchuk - *Gentiva Health Services - EVP and CFO*

When you look at the Healthfield numbers, Larry, home health revenue is somewhere in that $185 (million) to $190 (million) range. Their Medicare component of that is between roughly $160 (million) and $165 (million). So the freeze versus an increase of 2.4% is about a $4 million impact. What I will say is from the rural component, their rural markets represent, I believe, it's somewhere between 15(%) and 20% of their overall Medicare. There it is a pick-up there on their component roughly of $1.5 million with rural add-ons. So, hopefully, that gives you a little bit of flavor.

Larry Marsh - *Lehman Brothers - Analyst*

So do we think of that as $4 million negative and $1.5 million of benefit?

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John Potapchuk - *Gentiva Health Services - EVP and CFO*

That is correct.

Larry Marsh - *Lehman Brothers - Analyst*

Okay. The final thing is, Ron, I know you --

John Potapchuk - *Gentiva Health Services - EVP and CFO*

Once again, I mentioned this to John, but that that $55 million number you are referring to and the numbers I'm giving you are annualized numbers, keep that in mind.

Larry Marsh - *Lehman Brothers - Analyst*

I understand. And you are only assuming it's in for 10 months. Right?

Larry Marsh - *Lehman Brothers - Analyst*

The final thing is, Ron, I know in the past you've talked about Healthfield being -- beginning an opportunity to more aggressively look at right sizing both CareCentrix and your operating infrastructure. When would you anticipate taking a harder look at sort of the market-by-market opportunities that are presented to you post-Healthfield? Is that like a second half '06 event or is that something that we should think about over a longer period of time?

Ron Malone - *Gentiva Health Services - Chairman and CEO*

I think we will begin feeling the impacts of the changes we've made to streamline CareCentrix during the second quarter of this year. As it relates to the relationship between CareCentrix and the home healthcare branches, we have said in the past we view those as independent, not interdependent operations. We are today the primary provider for CareCentrix home health requirements in about 60 markets. Where the business and our capacity and the CareCentrix needs converge to make us either the dominate provider or a preferred provider, if you will to that need.

In a number of other markets where we are more focused on growing our specialty businesses and further penetrating Medicare, we are not a primary provider to CareCentrix today. That is already in place.

As it relates to the non-CareCentrix commercial business, we have a number of contracts in negotiation right now. I think it's a number between 300 and 400 that are in active negotiations and we have, in fact, terminated agreements and that really has impacted some of the softness you've seen in the revenue numbers. I believe this is -- I'd like to see that process just turn on a dime. I think the process, though, of backing down that commercial and bringing in the Medicare can be temporarily disjointed, if you will, but I think it's worthwhile. I think you have to have discipline and you have to stay with that. Otherwise, we would simply be running business below the margins that we would expect and deserve forever. So we're in that period right now where we've really taken that hit and are now in the process of rebuilding into our capacity with Medicare.

Larry Marsh - *Lehman Brothers - Analyst*

Okay. And then, finally, John, have you disclosed the rates that you have secured in this $370 million 7-year term loan or pricing around the revolving credit facility?

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John Potapchuk - *Gentiva Health Services - EVP and CFO*

That credit facility will, in fact, be filed. The rates that we have, Larry, on the term loan, it's the base rate plus 1 1/4 and LIBOR would be the preferable -- LIBOR plus 225 basis points. But included in the agreement, we have a couple of step downs in the sense that if we reduce our leverage ratio to below 3.5 to 1, we get our rate down 25 basis points. If we go below 3 to 1, it goes down another 25 basis points.

Larry Marsh - *Lehman Brothers - Analyst*

Okay. Great, thank you.

Operator

Balaji Gandhi with Oppenheimer Co.

Balaji Gandhi - *Oppenheimer - Analyst*

Good morning. I just had a question which I don't know if you shared this with us in the past. But for Healthfield, just a breakout of revenues by different business. I think you said home health was about $185 (million) to $190 (million)?

John Potapchuk - *Gentiva Health Services - EVP and CFO*

Yes, Balaji, I'm giving you the trailing twelve-month numbers on that. Maybe I'll stick with that for a moment. The trailing 12 months that we reported previously that ended September 30th, home health care and, again, these are pro forma numbers for a trailing twelve-month, home healthcare was in the range of $190 (million); hospice was about $65 (million); DME and respiratory is about $25 (million); and infusion is $13 (million) to $14 (million). That should add up to somewhere around the $290 (million) mark.

Balaji Gandhi - *Oppenheimer - Analyst*

Is the DME/respiratory, is that a similar payer mix as the homecare?

John Potapchuk - *Gentiva Health Services - EVP and CFO*

Homecare is predominantly Medicare, 88%; DME, there is some component of Medicare, but that is a much smaller piece.

Balaji Gandhi - *Oppenheimer - Analyst*

And with the home health business specifically, I know that CMS has indicated they're going back to look at some prior period recoveries for a couple of different instances. Have you gone through with the Healthfield business and maybe take a reserve for some exposure to either of those items?

John Potapchuk - *Gentiva Health Services - EVP and CFO*

At this point, Balaji, obviously we're two days into the acquisition and the accounting for that and acquisition contingencies are all something we will be looking at over the course of the next couple of months as we do our final accounting.

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Balaji Gandhi - *Oppenheimer - Analyst*

So it's something we might see in the -- I guess in the first balance sheet that we get of the combined company?

John Potapchuk - *Gentiva Health Services - EVP and CFO*

Yes. Again, we will talk more about that on our next call.

Balaji Gandhi - *Oppenheimer - Analyst*

Okay, great. Thanks.

Operator

John Ransom with Raymond James & Associates.

John Ransom - *Raymond James - Analyst*

I guess every conference call somebody gets to ask a dumb question. This is my chance. Is the -- I assume the amortization is tax-deductible, is that correct? Or no?

John Potapchuk - *Gentiva Health Services - EVP and CFO*

The amortization --?

John Ransom - *Raymond James - Analyst*

The additional Healthfield amortization, are you assuming that's going to be fully tax-deductible?

John Potapchuk - *Gentiva Health Services - EVP and CFO*

Let me just say for book purposes, clearly, there will be a deferred tax associated with that. For cash taxes, which I think is what you are referring to, is what we -- this acquisition was set up as a purchase of stock. And we will not have same level of -- we won't be able to amortize goodwill or intangible assets for tax purposes. There's some of that. There's some carryforward that we would have and, again, I don't want to give you an estimate just yet. And, again, we may have more clarity on the next call that we will be able to deduct, but it's not going to be the full basis of the acquisition.

John Ransom - *Raymond James - Analyst*

What kind of tax rate are you assuming in your net income? Is there something different? I see the book tax rate, but is there something different between the book tax rate and the cash tax?

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John Potapchuk - *Gentiva Health Services - EVP and CFO*

I think certainly, John, for 2006, and again that's all we're really talking about now, the tax rate for book purposes, if you will, is 38% to 38.5%. The cash payment of taxes that we expect would be somewhere in the 10% to 15% range. And that is due to a number of factors. There is, as I mentioned, some carry-on a tax amortization from Healthfield. We certainly have deductibility of some tax amortization from prior acquisitions that we have made. We also have certain benefits associated with that, deals relating specifically to Healthfield's stock options that we will be able to take advantage of. Our cash payment of taxes is in that 10% to 15% range for 2006.

John Ransom - *Raymond James - Analyst*

But just again, just to be clear, the $10 million of amortization, is that $6 million after-tax? It sounded like it is higher. Is it more like $8 million after-tax or are you still working through that? It's not fully deductible so it is higher than the after-tax hits higher than normal because of that?

John Potapchuk - *Gentiva Health Services - EVP and CFO*

It's in -- for book purposes, John, right now I anticipate that we would reflect that as a deferred tax item and so you get the same tax rate on that. But we are still working through that.

John Ransom - *Raymond James - Analyst*

So it would be fully deductible from a book standpoint?

John Potapchuk - *Gentiva Health Services - EVP and CFO*

From a book standpoint.

John Ransom - *Raymond James - Analyst*

Okay, thank you.

Operator

Unfortunately, we do not have any time for any further questions. I would like to turn the floor back over to Mr. Malone for any closing comments.

Ron Malone - *Gentiva Health Services - Chairman and CEO*

Okay, thank you. Again, I'd like to welcome Tony Strange. Tony is connected to the call remotely. Welcome, Tony. Again, congratulations to John and welcome to Brian Silva and I'd like to thank each of you for your participation this morning and your continued interest in Gentiva and our progress. 2006 is going to be an exciting year for Gentiva and we plan to keep you informed on our progress.

We look forward to giving you an update on the first-quarter call. Thanks again.

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Operator

Thank you. This concludes today's teleconference. Once again there it is a replay available for this call beginning at 12:00 PM Eastern time. The dial-in number is 973-341-3080 followed by entry of PIN number 7044852. Please disconnect your lines at this time and have a wonderful day.

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