

***Gentiva Health Services, Inc. Special Conference Call
on CIGNA Health Care Contract
Friday, October 28, 2005***

Company Officers

Steve Paige; Gentiva Health Services; SVP & General Counsel
Ron Malone; Gentiva Health Services; Chairman & CEO
Al Perry; Gentiva Health Services; President & COO
John Potapchuk; Gentiva Health Services; SVP & CFO

Conference Participants

Art Henderson; Jefferies & Co.; Analyst
Larry Marsh; Lehman Brothers; Analyst
Eric Gommel; Legg Mason; Analyst
Tony Campbell; David Knott Partners; Analyst
P. J. Fortner; Cochran, Caronia; Analyst

Presentation

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Gentiva Health Services Special Conference Call. (Caller Instructions.) I would now like to turn the call over to our host, Mr. Steve Paige of Gentiva. Please go ahead.

Steve Paige: Thank you for joining us this morning. I'm Steve Paige, Senior Vice President and General Counsel of Gentiva Health Services. And this is Gentiva's Special Conference Call to discuss last evening's announcement of our contract with CIGNA HealthCare. With me today are Gentiva Chairman and Chief Executive Officer Ron Malone, President and Chief Operating Officer Al Perry, and our Chief Financial Officer, John Potapchuk.

Comments made by Gentiva executives 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.

Finally, given that Gentiva is currently in its quiet period prior to the announcement of its third quarter earnings next week, comments made during today's call will address only the announcement of the CIGNA contract. Today's web cast is being archived and will be available on the Gentiva website on Thursday, November 3. A transcript of today's call will also be available on our web site within 48 hours.

Let me now turn the call over to Gentiva's Chief Executive Officer, Ron Malone.

Ron Malone: Thanks, Steve. Good morning, everyone, and thanks for joining us. First, I want to apologize for the frustration and uncertainty of the past few days regarding our October 24 announcement about the loss of certain CIGNA business. On Monday, we were required to disclose the change in an important contract before we had concluded our amended agreement on the rest of the CIGNA account, and before we had an opportunity to assess the impact of these changes. There was little we could say to you beyond the news release.

As a result, we have been very frustrated as well. Late yesterday, we concluded a new agreement with CIGNA and I'd like to make several points. The new contract, which becomes effective February 1, 2006, extends our relationship with CIGNA through January 2009. It calls for CareCentrix to continue with the coordination and delivery of the majority of home care services to CIGNA members. These services include home nursing, home infusion therapy, and certain specialty medical products. Among the specialty products are insulin pumps and wound suction devices.

We will continue to operate under our current national contract with CIGNA until January 31, 2006. We are currently providing the services I've already noted, as well as the coordination and delivery of respiratory therapy and certain durable medical equipment.

Because all of the changes to our CIGNA relationship announced this week, we now have a new estimate that the fiscal 2006 net revenues we derive from CIGNA could be up to \$40 million lower than the revenues we anticipate from the CIGNA contract in fiscal '05. This change in revenue could reduce our fiscal 2006 net earnings between \$0.03 and \$0.06 per diluted share. Our new estimate is based on several factors: the terms of the new contract, the loss of the respiratory therapy and certain DME business after a transition period prior to January 31, 2006, and the adjustment to the CareCentrix operating model that we'll make in response to new transaction volumes.

During next week's earnings call, we expect to provide you with a preliminary outlook for fiscal 2006 which factors in CIGNA developments announced this week and our reactions to those changes. With that, I'd like to open up the call to your questions.

Questions and Answers

Operator: (Caller Instructions.) We'll first go to the line of Art Henderson with Jefferies and Company. Please go ahead.

Art Henderson: Hi. Good morning. Just three questions for you. I appreciate you giving the earnings--or I guess the earnings impact from the lost business. But could you give us a sense of the operating margins on that particular piece of the business that you are losing? I know that your average CareCentrix margin looks like 8%. Was this something significantly lower?

John Potapchuk: Art, this is John. The--you are absolutely right. Those margins that we've disclosed in our segment reporting were in the 8(%) to 8.5% range. This business that we lost, while we--you can determine that these were relatively consistent margins, when we look at what our--we are anticipating next year, a loss of \$0.03 to \$0.06 on this loss of revenue would suggest that the margin impact is less than what we're currently running. And that would represent--is the result of a couple of different items, including the fact that this new contract reflects some incremental pricing for inflation and the like. And also, the -- some remodeling of our back office in providing this work.

Art Henderson: Okay. And that was going to lead to my second question. The difference in this contract that you've signed going forward is different than the previous contract. Just--could you just enumerate in just a little bit more detail what's going on there?

John Potapchuk: This contract will--and again, we're anticipating at this point that this contract will include services that we currently provide, except for the DME and respiratory services. But we anticipate that there will be expansion over time of that business. One of the reasons for that expansion, let's say, is we will be able, based on a collaborative initiative between CIGNA and Gentiva, to penetrate the PPO marketplace in greater depth than we have in the past. So that, we anticipate resulting in incremental revenue relative to what our current run rate is. And as I said, we also expect some increase in revenue as a result of rate changes. And finally, we expect that we will keep some HME business over a transition period that will last--likely last into the early second quarter.

So that's really some of the differences, and I hope I'm answering your question. From the announcement earlier this week where you could--if you look at--in fact, we indicated we would lose up to 25% of that CIGNA business, which would mean a \$60 (million) to \$65 million number. And now we are saying that number could be up to (\$)40 (million). Those are the explanations for some of the differences.

Operator: We'll next go the line of Larry Marsh with Lehman Brothers. Please go ahead.

Larry Marsh: Thanks. Just a couple -- I need your clarification on, John. First of all, remind us why you are required to disclose the fact that you were negotiating earlier this week. And then, I guess, clarify if you could the \$0.03 to \$0.06 reduction versus your expectations, or is that versus--is that off the top of the CIGNA relationship or is that versus what you are currently earning from that business or what you would anticipate having earned from that business in '06?

John Potapchuk: Larry, I'll take the second part. That's based on what we're--relative to what we're currently earning.

Larry Marsh: Okay. So we're not going to know what you think you're going to earn in the new contract until you disclose your guidance next week?

John Potapchuk: That's correct, although maybe one point of clarification. In taking what our current business is with CIGNA and I dialed in, as I just explained, some expansion of that

business and incremental rates, and came up with a number. That difference, relative to where we are today, is the \$0.03 to \$0.06.

Larry Marsh: I see. Okay. So we shouldn't expect to hear about any additional points of margin pressure on the new relationship when you talk about guidance next week?

John Potapchuk: That's correct.

Ron Malone: That's correct. Yes.

Larry Marsh: Okay. And then, just the chain of events that caused you to have to disclose the negotiations earlier this week?

Ron Malone: Yes. Larry, this is Ron. Good morning. We were notified by CIGNA that we--the decision had been made to give the significant portion of the DME as well as the respiratory therapies to another provider. This provoked a change in the material agreement for the company, which we were required to disclose. It is unfortunate that these contracts were not sequenced together, and that way we could have given you much greater clarity, which I hope that's what you are seeing this morning. But unfortunately, we didn't have any clarity really about what the final agreement would look like. However, we did know it would be excluding this revenue, which we--is certainly material revenue at that point just prior to our putting out that release early in the week.

Operator: We'll next go to the line of Eric Gommel with Legg Mason. Please go ahead.

Eric Gommel: Yes. Actually, most of my questions were answered. But I just--how does this change your relationship with Rotech? And are there still contracts that you are going to be providing HME and respiratory therapy equipment sort of through the CareCentrix model beyond this--not withstanding this CIGNA contract?

Ron Malone: Eric, yes. Sort of starting with the answer to your last question is yes. Rotech has been a great partner for the last couple of years with us. They've been innovative, they've been collaborative, and their service has been very, very good and consistent for us. And we would expect to continue as we open new accounts and expand the current accounts we have.

Eric Gommel: Great, thanks.

Ron Malone: Thank you, Eric.

Operator: We'll next go to the line of Tony Campbell with David Knott Partners. Please go ahead.

Tony Campbell: Good morning, gentlemen. The--I'd just like to get a little--you've given us \$0.03 to \$0.06, and I assume--I want to understand the assumptions behind \$0.03 and the assumptions behind \$0.06. And then, sort of a general question. Unlike the marketplace, this is

basically a low margin business, and I understand this margin on this business is probably top or past the total margin on CIGNA business.

So I'd like to understand what you guys are doing to attract higher margin business and less reliance on CIGNA. I know you had a contract. I forget what the name of the company--and somehow that got--which I think was higher margin business. And I know you could give us just an update on your efforts to attract some higher margin business, and so we have less reliance on a big player like CIGNA.

Ron Malone: Okay. Thanks, Tony. Good morning. This is Ron. First of all, let me deal with the variance in the \$0.03 to \$0.06, and I'll ask John to make any further comments he'd like to. One of those components is the loss of revenue. Right now, we're targeting that that loss of revenue is probably on a net basis where you put in the changes in pricing and our access to additional members we've not been serving in the past. We are targeting that that loss of revenue would be about \$30 million. It could be up to (\$)40 (million), just depending upon the sequencing and some of those details. But we're targeting in our numbers about (\$)30 (million).

And then, the other would just frankly be the risk of execution. I mean, we have to make certain adjustments in our delivery model based upon lower transactions, so that the more quickly we identify that and the more quickly we implement those changes as this portion of the contract winds down, that would render us more toward the low end of that estimate.

As it relates to your other question--.

Eric Gommel: --Ron, could I just jump in here. Did--are you assuming any cutback in SG&A?

Ron Malone: Absolutely. Yes, absolutely. I mean, these--the DME and respiratory--the cases we handle there, the referrals, are absolutely identifiable. I mean, we have teams in our call centers that handle these transactions, so we would expect to adjust the SG&A in response to those lower volumes.

Operator: We'll next go to the line of [inaudible].

Ron Malone: Hold on one second, please. Let me answer the other part of Tony's question. I think that you probably, Tony, paid close attention and you are well aware of our efforts to grow our Medicare business and the home health nursing segment. We also have a project underway to review and change the rate levels of managed care agreements across the board, and make sure that those match what we believe are prevailing market rates, particularly, in light of what we have described as a good demand for our Medicare business and adding within our branches. And, of course, within CareCentrix, we continue to look where we can provide value there.

Now the trends of the past few years in this type of business would render us seeing opportunities maybe broadly in the \$5 (million) to \$50 million range more than the \$100 (million) to \$200 million range. So I think that the drift toward PPO and open access type of models just renders the target customer being probably smaller than you might would assume.

We did--I guess what I'm saying is I don't see many other companies looking at this quite the same--in the same way that CIGNA has in the past.

Okay. You can go to the next question.

Operator: Thank you. The next question will come from the line of--it's a follow-up from the line of Art Henderson. Please go ahead.

Art Henderson: Two questions, again. In the \$0.03 to \$0.06--and just to follow-up what Tony was asking, how much SG&A have you cut out to get to those--that range?

John Potapchuk: That SG&A is--again, it's a timing issue, Arthur, but it's somewhere in the neighborhood of \$2.5 (million) to \$3 million.

Art Henderson: Okay. And I guess, the thing that just concerns me about it is--about this contract is that I don't think there's many people listening to this call that don't view this CIGNA relationship as not a positive for the Company. This has been a liability for a very long period of time. And I know, Ron, that you have indicated in the past that--as you did with the TriWest contract, that you would talk about maybe restructuring it in a much different way so that there wasn't nearly as much risk on your behalf. I mean, it just seemed like this was an opportunity where you guys had a lot more leverage against CIGNA. I mean, I just can't imagine where CIGNA would go if they didn't have you guys to provide this kind of service.

So I'm just wondering why you would have re-upped this contract and possibly had more margin pressure. And maybe I'm not understanding it correctly. But it just seems like this would have been a perfect time in a year which has sort of been riddled with operational setbacks, that you could have just said, I'm wiping my hands clean of CIGNA. I'm moving ahead with a core business where I'm devoting a lot more effort and time into the Medicare business and other parts of your managed care--that we could have gotten beyond this. Now we're going to have to live with this for another three years. And I just--I want to understand what's the thinking there.

Ron Malone: I think first of all, we are--we have mentioned--I think John has mentioned that we are going into this pricing--this new contract with higher pricing. It is stabilized now for three years. And frankly, other than weeks like this week, Art, I don't think that this is a distraction at all into our efforts to diversify more into Medicare and to have a more diversified customer base.

Art Henderson: Yes. But I mean, I think that the point being is that this CareCentrix business isn't really the core of where you really want to grow your business. And yet, this was an opportunity for you to step away from it more, and then, you chose not to. And this just baffles me. So--.

John Potapchuk: Well, Arthur, it's a separate business unit, separate resources. We're providing a valuable service to CIGNA. It is clearly a positive contributor to our earnings. And this new contract, we anticipate the margins associated to be better than they were in the past.

Art Henderson: So your operating margins are going to increase to what level from the 8.5%?

John Potapchuk: We'll have a little bit more clarity on that on next week's call. But again, if you take a look at the revenue we expect to lose relative to current run rate, and the earnings impact on that, which is the \$0.03 to \$0.06, you'd have to conclude that relating specifically to CIGNA, we certainly anticipate higher margins on that book of business.

Operator: We'll next go to the line--a follow-up from the line of Larry Marsh with Lehman Brothers. Please go ahead.

Larry Marsh: Just to make sure I'm hearing it correctly. You're saying, Ron, nearly \$30 million and with a bit of cushion you say it could be up to \$40 million. I know the vendor who won is saying \$20 to \$25 million. Is that--is it really just the difference between say (\$20 million), (\$25 million) and (\$30 million) and is that just being conservative on your part, and maybe being conservative on their part?

Ron Malone: Well, it's probably the difference, frankly, in margin. You have to talk with any other company about that. We believe that we--in our rounds of negotiation with CIGNA, we think we offered market competitive pricing. So perhaps there is a delta there in--that reflects more in the margin than anything else.

Larry Marsh: Okay. Thank you. And then, just a follow-up. It's interesting that the vendor, who you no longer used in this contract, was it a year or a year and a half ago, is suddenly now taking the business from you? What can we read into that? And should--would it be unfair to assume this was basically about cheapest price to CIGNA?

Ron Malone: Well, I think first, you'd have--frankly, you'd have to ask CIGNA because they at the end of the day are the ones controlling that decision. As I just mentioned, we think that we had competitive pricing on the table. We believe that our service delivery has been extraordinary. And I will say that CIGNA probably certainly, I think, appreciates the nature--that the piece of business we're taking forward requires a keen understanding of clinical delivery. And then, perhaps they might have viewed other pieces of the business as being less demanding in that area and hence more subject to just whatever the lowest price was. But again, you'd probably have to ask CIGNA.

Operator: We'll next go the line of P. J. Fortner with Cochran, Caronia. Please go ahead.

P. J. Fortner: All of my questions were just answered. Thank you.

Ron Malone: Okay. Well, thank you all for joining us this morning. I'd like to thank you for your participation in this call with Gentiva. We look forward to talking with you again on next week's earnings call, and we hope to keep you informed of our--any changes in our CIGNA relationship. Thank you.

Operator: Ladies and gentlemen, this conference will be made available for replay beginning today at 11:45 a.m. EDT, continuing through Thursday, November 3, at midnight. To access the AT&T Executive Playback Service at any time, dial 1-800-475-6701 and enter the access code

801875. That number, again, 800-475-6701 and the access code 801875. That does conclude your call for today. Thank you for your participation and for using the AT&T Executive Teleconference Service. You may now disconnect.