

letter from the CEO

I am pleased to report that 2007 was a year in which we capitalized on the companywide transformation that began in late 2005 and made solid progress in executing on our growth strategies. During the year, we enhanced our focus on clinical excellence and innovation, differentiated Gentiva from the competition and extended our industry leadership. As a result, we ended 2007 with strong financial performance and positioned our Company for continued growth.

Much of our strong performance is attributable to the outstanding achievements of Gentiva clinicians and the thousands of employees who support them. I encourage you to read more about our clinical advances in the essay entitled "New Frontiers in Home Health" that can be found in our 2007 Annual Report to Shareholders.

2007 financial performance

Highlights of our Company's financial achievements for 2007 include the following:

- Net revenues increased 11% to \$1.23 billion.
- Gross profit margin rose to 42.6%, up from 41.8% in the prior year.
- Net income was up 58% to \$32.8 million, or \$1.15 per diluted share.
- Operating cash flow increased 22% to \$62.7 million.

Our strong cash flow provided support for Gentiva's growth strategies and allowed us to make \$32 million in voluntary term loan repayments during 2007. At year end, our long-term debt stood at approximately \$310 million and the repayments had contributed to two interest rate reductions on our term loan between August 2007 and February 2008.

growth in home health

Our Home Health business segment performed well during 2007, led by the continuing expansion of our successful specialty programs and solid performance in nursing.

Net revenues for the segment increased 10% to \$821.8 million versus the prior year, while operating contribution was up 29% to \$122.0 million and operating contribution margin rose to 14.8% in 2007 versus 12.7% in 2006. We can attribute much of this performance to earlier investments in our sales force and related resources, and to the elimination or renegotiation of commercial business that did not meet our profitability requirements.

For each of the four quarters of the year, Gentiva reported double-digit organic Medicare growth. As a result, our Company continued its shift toward Medicare, which represented 50% of total net revenues and 67% of Home Health net revenues in 2007. This compares to 48% and 64%, respectively, in the prior year.

expansion of specialty programs

Much of our Medicare growth was driven by the expansion of specialty programs, including Gentiva Orthopedics, Gentiva Safe Strides® and Gentiva Cardiopulmonary.

For the fourth quarter of 2007, for example, their share of total Medicare Home Health revenues increased to 28%, up from 22% in the same period of 2006. We ended 2007 with over 225 specialty programs in nearly 150 locations and are continuing with plans to launch them in additional markets, including acquired locations.

While they've spurred many imitators, Gentiva's specialties have continued to give us an edge by differentiating us from the competition. They've helped us to demonstrate our excellence to local physicians and other referral sources, and recruit clinicians in a tight labor market. More information on these remarkable programs can be found in our Annual Report essay and on our web site.

To support the continued growth of Medicare and the specialty programs, we've stayed focused on a key strategy of increasing capacity and productivity. During the year, we made important strides in recruiting and retaining employees in the midst of a continuing national shortage of nurses, therapists and aides. We've worked hard to provide our people with competitive and flexible compensation and benefits, extensive continuing education and a rewarding professional environment that encourages significant and lasting contributions.

To enhance both clinical excellence and productivity, Gentiva continued its work on a new clinical management system with powerful technology tools to share real-time patient information among our clinicians, referring physicians and institutions. As a result of these and other initiatives, we believe Gentiva will continue to be an employer of choice in the home health industry.

CareCentrix' upward trajectory

CareCentrix, our ancillary care benefit management unit, continued its growth in 2007, thanks to higher member enrollments in existing contracts, the pursuit of new business, and benefits derived from the streamlining of operations and realignment of management and sales teams that began in late 2005. Net revenues for this business segment in 2007 increased 9% to \$290.8 million versus the prior year, while operating contribution was up 18% to \$29.1 million. Operating contribution margin rose to 10.0% in 2007 versus 9.2% in 2006.

This upward trajectory is expected to continue following CareCentrix' announcement in early 2008 that it had extended a national contract with CIGNA HealthCare through January 2011 for the coordination and delivery of homecare services to CIGNA members. This relationship, which began in 1996, represented approximately 19% of Gentiva's total net revenues in 2007.

developing other related services

Work continued during the year on further developing our Other Related Services segment (consisting of hospice, home medical equipment and respiratory services, infusion services and consulting), which reported 2007 net revenues up 16% to \$121.8 million versus the prior year. Much of this increase came from Gentiva's reporting of a full year of results of certain businesses acquired with The Healthfield Group, Inc. versus approximately 10 months of results from these businesses reported in 2006. The segment's operating contribution declined 26% in 2007 versus the prior year, while operating contribution margin was 11.3%, down from 17.8% in 2006.

To improve these results, we've invested in the hospice sales structure and added new leadership to position this business for future growth. Hospice is complementary to home health and shares many of the same referral sources. We saw trends emerge in late 2007 to indicate that our efforts are working. At the same time, 2007 results for the remaining businesses in this segment have shown us that additional work is needed to improve their performance in 2008.

meaningful acquisitions

Beyond our internal growth initiatives, Gentiva continues to pursue appropriate acquisitions. In July 2007, we acquired a business providing home health and related services in North Carolina. In February 2008, we added to our already strong footprint in the southeast by acquiring a major home health and hospice provider serving patients in 50 of 82 Mississippi counties. Both of these organizations are in states that grant a limited number of certificates of need (CON) permitting healthcare providers to deliver their services to residents.

Looking ahead, we continue to seek meaningful acquisitions that bring us critical mass and add to our geographic reach, primarily in Sunbelt regions and CON states. We look for companies that already have strong operations and minimal overlap with our own locations. We prefer organizations that are culturally compatible with Gentiva and share our high standards of clinical and business excellence.

As we look ahead to the rest of 2008, I see this as another period of growth and opportunity for Gentiva. My view remains optimistic even as we deal with new Medicare rule changes and various proposals seeking to limit future home health reimbursements. In fact, if one examines Gentiva's positive financial outlook for 2008 and our track record over the past three years, a pattern of consistent and solid performance is emerging in a number of key financial measures.

consistency and predictability

This level of consistency and predictability, so critical to our investors and other audiences, is an important byproduct of Gentiva's relentless focus on growth and our close monitoring of each business. It also comes from the outstanding work of Gentiva employees and the continued trust and support of our patients, referral sources, payers, directors and shareholders. As we build on this positive track record in 2008 and beyond, I believe that, for Gentiva, the best is yet to come.



Ron Malone
Chairman and CEO