
MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Melissa and I will be your conference operator today. At this time, I would like to welcome everyone to the Gentiva Health Services Second Quarter 2009 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] As a reminder, this conference call is being recorded today, July 30, 2009.

It is now my pleasure to turn the floor over to Steve Paige, General Counsel. Sir, you may begin your conference.

Steve Paige, Senior Vice President, General Counsel and Secretary

Good morning everyone. I am Steve Paige, General Counsel of Gentiva Health Services and this is Gentiva's second quarter 2009 earnings call. Speaking on the call today are Tony Strange, Chief Executive Officer and President and John Potapchuk, our Chief Financial Officer.

We hope that each of you had a chance to review the Company's earnings report, which we released earlier this morning. All statements made during this call relating to future results and events are forward-looking statements that are based on our current expectations.

Actual results could differ materially from those projected in forward-looking statements because of a number of risk factors and uncertainties which are discussed in our annual and quarterly SEC filings and in the cautionary statements contained in our press release and on our website.

Our call today will be consistent with the SEC's Regulation FD. 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 also conforms to Regulation G regarding the reconciliation of GAAP and non-GAAP disclosure. As a result, we will not discuss non-GAAP financial measures on this call, except for those set forth in our press release. You may access the replay of this call on our website for the next seven days. A transcript of the call will be posted on our site within the next 48 hours and will be available for the next 12 months. Following today's prepared remarks, we will open the call for questions. Please limit your initial comments to one question and one follow-up, so that we can accommodate as many callers as possible in the allotted time.

Let me now turn the call over to Gentiva's CEO, Tony Strange.

Tony Strange, Chief Executive Officer and President

Thanks Steve and good morning everyone. Thank you for joining our second quarter 2009 earnings call. As we covered in our press release this morning, Gentiva posted a strong performance for the second quarter by continuing to execute on its business plans and as a result we've raised our guidance for 2009. But before we get into the specifics on that, I'd like to talk for a few minutes about the activities in Washington that are impacting our industry today.

Over the last 90 days, the pace of healthcare reform efforts has picked up considerably in Washington. Both the House and the Senate are working on bills that outline specific reimbursement changes to home health and hospice, and while I cannot and will not predict the content of these final bills, I am prepared to discuss the efforts of Gentiva and the rest of our industry leaders in shaping healthcare reform; and equally important, I want to assure you that the

actions that we're taking today are consistent with Gentiva's mission of leading the home care industry into the future.

Gentiva, along with the National Association of Home Care, the Alliance for Home Health Quality and Innovation and other industry leaders, is engaged in a highly organized effort to make sure that policy makers and legislators understand that home health will play a significant role in reshaping our nation's healthcare delivery system. Home care is clinically appropriate; it's cost effective and most importantly, it's preferred by the patient. The National Associations have called upon industry leaders to garner additional resources to help deliver our message throughout Washington.

The National Association of Home Care and our advisors are engaged in thoughtful and meaningful discussions with Congressmen and policy makers. There are meetings on a daily basis amongst these various parties, and we're engaged most actively with the Senate Finance Committee. The pulling back and forth include potential changes to outlier reimbursement, a moratorium on new providers, support for post acute demonstration projects, changes to market basket update methodology and increase in reimbursement for rural providers as well as the rebasing of rates.

One of the key objectives from our industry is to meter the proportionality of the cuts as well as to affect the implementation timeline. All of these discussions demonstrate that our industry is engaged in finding a solution that addresses the mandate for healthcare reform in a way that preserves the value that home care brings to our nation's senior population.

One key tool that we've used in our meetings in Washington – with Washington leaders is an independent study released in May by the Avalere Health Group. Avalere was commissioned by the Alliance for Home Health Quality and Innovation to perform a study on the cost effectiveness of home health using CMS's own data.

The study focused on three of the most chronic and high cost diagnoses; congestive heart failure, diabetes and chronic obstructive pulmonary disease. Avalere's study shows that in these three diagnoses alone the use of home health could save the Federal government in excess of \$30 billion over a 10 year period. This type of data speaks directly to the impact that home health can have through specialized clinical program such as Gentiva's cardiopulmonary program. Expanding these types of specialty programs targeted at the meeting the chronic health needs of our senior population is a key strategy for Gentiva and you will hear more about our progress later in today's call. Meanwhile, if you are interested in more on the Avalere study, a copy of the study published on May the 11 is available on the Avalere website.

Another tool we've used is the combined efforts of the people across the country who believe in home health. I am extremely proud of the employees of Gentiva for their outstanding response to the call to action. An effort spurred by our industry to involve home health caregivers, physicians, referral sources and patients to tell Congressional leaders of their belief and the benefits of home health.

As an industry we've sent over a 100,000 letters to legislators demanding that Congress protect the home health benefit and more than 28,000 of those were initiated through Gentiva. This strong response further demonstrates to the leaders in Washington, the value that home care provides both at the national level in our healthcare delivery system as well as in the local communities in the districts in which they were elected.

It is imperative that our industry be funded in such a way as to enable us to continue recruiting and retaining the best caregivers, developing specialized care protocols with clinically proven quantifiable and sustainable outcomes and implementing technologies that will bring efficiencies across the entire healthcare continuum. With appropriate and predictable funding home health can and will be the solution that our country so desperately needs. I believe the advances we've made in educating policy makers on the benefits of home health today are going to be a positive on our

policy decisions for years to come. While the fight is not over Gentiva is positioning itself to weather a storm and to capitalize on opportunities that reform will create.

Trends including consolidation, increasing efficiency and sophistication in the delivery of care will continue and most likely accelerate. Industry leaders like Gentiva with a national network and the critical mass to drive efficiencies will adapt over time. Our job in the near-term is to continue to execute our plans and maintain a strong balance sheet with the flexibility to pursue growth opportunities as they emerge.

That brings me back to Gentiva's strong results for the quarter. As sales and operations leadership continues to display great discipline in executing against our plan, revenues for the quarter totaled approximately \$298 million, which represents growth of more than 12%. EBITDA, excluding special charges, was about \$36 million, up 32% year-over-year. Both the revenue and EBITDA growth rates exclude prior year consensus results for comparative purposes.

Our performance is translated into the strengthening of our balance sheet by reducing our leverage ratio to under 1.9 times and by building cash approaching \$100 million at the end of June. As a result of this strong performance, we have raised our guidance for the full year 2009. John will discuss our projections in more detail in just a moment.

Let's turn our attention for our home health segment. Revenues for the quarter totaled approximately \$266 million, up 12% year-over-year. These results were driven by continued focus on our operating plan. The following are few of the highlights from the quarter.

First and foremost, we've continued to grow our specialty programs. Our specialty offerings are up to 350 and we are on track to deliver our goals for the year. I'm also pleased with the work that's being done on the development of new specialty programs, targeting chronic diseases that affect our senior population.

Secondly, we continued to do a good job of increasing our capacity. This quarter we added a net of approximately 215 new clinicians and had a reduction in turnover for the tenth straight quarter. And finally, we've made great progress in moving our clinicians to a pay-per-visit structure. Pay-per-visit now represents more than 80% of our full-time clinicians versus the 70% at the end of Q1.

Our hospice business also had another good quarter of solid improvement, and I want to congratulate these employees for a fine first half of 2009. Our census at the end of the quarter exceeded 1,500 patients and we continue to see margin expansion based on improved operating efficiencies. These results help drive revenues in our other services of \$33 million for the quarter, up 14% over prior year.

During the past two months, we've also closed two separate acquisitions; Mid-State Home Health in Alexandria, Louisiana, and Nicholas-Webster Home Health in Summersville, West Virginia. I'd like to welcome these employees to the Gentiva family and wish them well. In addition last week, we announced the signing of the definitive agreement with Magna Home Health in Meridian, Mississippi. And we expect this acquisition to close at the end of the third quarter.

And while individually we don't expect any of these three transactions to materially affect our outlook for 2009, we do believe that they demonstrate our appetite as well as our ability to be competitive in a consolidation environment. I believe this will be especially important should the change in reimbursement be a catalyst that ignites consolidation.

I'll close by saying that I'm extremely proud of our organization and the performance of our Company. I'm proud of our employees and the care that we deliver to our patients. I'm proud of our industry and the voice that we're exercising in Washington. I'm proud of Gentiva and our results, and I'm confident that our Company will maintain this leadership role in this industry.

With that, I'd like to turn the call over to John for some further insights into our results. John?

John Potapchuk, Executive Vice President and Chief Financial Officer

Thanks, Tony, and good morning, everyone. I am very pleased with Gentiva's recent operating and financial performance. For the second quarter of 2009, Gentiva reported diluted earnings per share of \$0.58 on a GAAP basis. This result included a special charge of \$0.01 per diluted share relating to restructuring and integration activities. As a result, second quarter 2009 adjusted net income was \$0.59 per diluted share compared to \$0.42 per diluted share in the second quarter of 2008.

For the first half of 2009, diluted EPS was \$1.19 on a GAAP basis and adjusted earnings were \$1.02 per diluted share after excluding both positive non-recurring items and restructuring and integration charges. This earnings performance is the end result of solid execution of the business strategy that we have been discussing on earnings calls for some time now.

These business strategies include the following. First, growing revenue from services provided to the geriatric population, with a particular emphasis on expanding the penetration of our innovative specialty programs; second, building the capacity and productivity of our dedicated clinical associates; third, expanding our margins by operating efficiently and leveraging our corporate and administrative infrastructure in serving nearly 400 branches in 39 states; fourth, evaluating and closing opportunistic acquisitions; and fifth, further strengthening our balance sheet so that we are poised for future growth.

I'm going to discuss our results today in the context of our execution against these strategic priorities. In covering the numbers, I first want to remind everyone that the 2009 second quarter and first half results do not include operating results for CareCentrix due to the sale of a majority ownership interest in that business in September of 2008.

To provide comparability between the reporting periods, I will discuss various adjusted amounts, which exclude the impact of CareCentrix in 2008 and also exclude both positive non-recurring items and special charges relating to restructuring and integration cost in both 2008 and 2009.

Let me start with our first business strategy relating to growing revenue with a focus on serving the needs of the geriatric population. For the 2009 second quarter, net revenues were just over \$298 million, representing sequential growth of over 9 million from the 2009 first quarter and revenue growth of over \$33 million or 12.3% compared with the second quarter of 2008.

However, when we examine revenues from services primarily to the geriatric population we see even higher growth rates. For example, home health episodic revenues were over \$213 million in the 2009 second quarter, an increase of about \$38.6 million or 22% compared to the prior year second quarter.

Hospice revenues for the second quarter of 2009 were over \$18 million, an increase of nearly \$4 million or 27% from the second quarter of the prior year. Excluding home health episodic revenues and hospice revenues, Gentiva's remaining net revenues were about \$67 million in the 2009 second quarter, a decrease of nearly \$10 million or 13% from the comparable prior year period. This decrease resulted from the first quarter 2009 sale of certain branches specializing in pediatric home health services and the Company's continuing effort to reduce services it provides at unacceptable margins.

Let's take a closer look at the major component of our revenue mix, home health episodic revenue. Episodic revenue now represents 80% of total home health revenues, up significantly from 73% in the 2008 second quarter and 78% of the total in the first quarter of this year. In addition, as a

percentage of our Medicare home health revenues, revenues from specialty programs represented nearly 38% in the 2009 second quarter, compared to 31% in the second quarter of last year and 35% in the 2009 first quarter.

I'll now review some of the underlying data that is supporting our home health episodic revenue growth. During the second quarter, there were about 46,600 admissions on an episodic basis, more than a 5% increase from the same period last year. Total episodes in the second quarter were approximately 67,600. This represented an increase from the second quarter of last year of nearly 10% of which 1% resulted from acquisitions and 9% resulted from same store growth.

Revenue per episode was about \$3,160, up 12% from the prior year period. The increase in revenue per episode resulted from the continuing shifting mix towards higher acuity patients driven by the significant growth in our specialty programs.

Let's move on to our second major strategy, building the capacity and productivity of our clinical associates. During the most recent quarter, our total complement of dedicated clinicians paid on a salary or pay-per-visit basis grew to over 5,000 associates. We continue to make great strides in adding clinicians to meet the growing demand for our services. Tony mentioned the outstanding result we had this quarter in adding approximately 215 net new clinicians. This is up from over 200 new clinicians added in the first quarter, which itself was a great result.

On the productivity front, Tony also mentioned that in the second quarter we paid over 80% of our home health clinicians on a per visit basis. This is up from 52% in the year ago second quarter and 70% in the first quarter of 2009. This initiative benefits the clinicians and that it recognizes and rewards the efforts of productive employees as well as benefiting the Company by matching revenue with expenses which allows for better control over margins.

And expanding our margins is the third strategy I want to discuss today. Excluding CareCentrix in prior year results and special charges in both the 2008 and 2009 periods, EBITDA as a percentage of net revenues increased from 10.3% in the second quarter of 2008 to 12.1% in the second quarter of 2009.

As compared to the prior year period, our 2009 quarterly cost have increased on several levels. For example, visits per episode have increased by nearly 10% to about 19 visits. The mix of clinician visits has changed with a greater emphasis on higher cost disciplines and employee health and welfare cost paid by the Company have increased by over 24%.

However, we were able to increase our margins during the current quarter due to several factors including the following. The favorable change in our revenue mix that I just discussed, the migration of clinicians to a pay-per-visit initiative, better controlled and discipline over various direct caregiver costs such as mileage and self insurance expenses, and our position as a large national company with the ability to leverage corporate and administrative support functions over a broader base of business.

On this last factor, let me mention a couple of other points. Our corporate expenses were \$17.1 million in the 2009 second quarter, in line with the expectations we discussed on our last earnings call. In addition, after excluding CareCentrix from total Company results, selling, general and administrative expenses increased by 10% while net revenues grew by 12.3% in the 2009 versus 2008 second quarter.

This marks the third consecutive quarter in which expenses grew at a slower rate than revenues contributing to the increase in EBITDA margins. Our fourth strategy relates to evaluating and closing opportunistic acquisitions. As Tony mentioned, during the past two months, we announced three separate acquisitions. Most of the acquired business is conducted in geographic areas not previously serviced by Gentiva within states requiring a certificate-of-need to perform home health

services. We expect these businesses to contribute earnings of between \$0.01 and \$0.02 per diluted share for the remainder of this year.

I am very pleased with the progress we've made on our fifth major strategy of further strengthening our balance sheet. Due to the strong operating cash flow, cash and cash equivalents have increased from \$69.2 million at year end 2008 to \$79.6 million at March 29, 2009 to \$99.5 million at the June quarter end.

Net receivables stood at about \$174.6 million at the end of June, a decrease of \$7 million compared to the end of the first quarter. Day sales outstanding, or DSOs, were 53 days at the end of June, a decrease of four days compared to both the end of the first quarter and year end 2008.

After making \$14 million of the required debt repayments in the first quarter, our long-term debt balance remained unchanged at \$237 million and our average annual interest rate on this loan was 2.7% during the second quarter. At this point, we have no required principal payments under this term loan until March of 2013. In addition, we continued to lower our consolidated leverage ratio, which stood at under 1.9 times at June 29th of this year.

So from a balance sheet perspective, I believe Gentiva is well positioned to weather the uncertainties of reimbursement and capitalize on future acquisition opportunities as a result of our strong cash position and improved leverage ratio in favorable terms on our long-term debt, and unused and available credit facility of nearly \$50 million and our ability to access financings through an effective universal shelf registration.

Now let me speak about our full year 2009 outlook. Based on our first half results and our confidence in continuing to execute on our business strategies, we are raising our 2009 outlook for net revenues and diluted earnings per share. We have increased full year projected net revenues from a range of \$1.14 to \$1.18 billion to a new range of \$1.19 to \$1.21 billion.

On an adjusted basis projected diluted earnings per share have increased from a range of \$1.72 to \$1.80 to a new range of \$2.04 to \$2.10. Adjusted EPS excludes non-recurring items and special charges relating to restructuring and integration activities. Our outlook includes the impact of recently announced acquisitions and also reflects 53 weeks of activity in fiscal 2009.

Gentiva has a sound operating strategy that is delivering results and we are in a strong financial position. Although there is uncertainty about reimbursement rates, we are confident about the future demand for our services and the growth opportunities ahead.

That concludes my remarks. Operator we would be happy to open the call up for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Whit Mayo with Robert W. Baird.

<Q – Whit Mayo>: Thanks. Just wanted to go back to the strategic initiatives for a second. I guess, particularly with regards to the per-visit pay conversions. I think if I heard you correct that you're now to 80% and that's up from 70% sequentially, pretty big move. And I guess I understand the productivity improvements around that have been pretty dramatic. What metric do you think illustrates those gains in those? Is it the episodic growth, the growth in visits per episode. Just – where do you think it's having the biggest impact, versus your margins?

<A – Tony Strange>: Well, hey Whit, this is Tony. I think your insight's correct. When I think about that initiative, it does affect cost in that we get out of the business of having to manage the productivity of clinicians. They really begin to take that on themselves and it really rewards clinicians for their productivity.

The other place that you'll see it, though, is in growth in revenue, because with the enhanced productivity, it also creates capacity. And I mentioned on the last call that I wouldn't expect this to ever get to 100% conversion because we're always going to have some clinicians or certain markets where paid clinicians on a salary basis may make more sense. But that number could get up to 85% or so, but it's probably not going to be 100.

<Q – Whit Mayo>: That 80% number, if I'm looking at the number of therapists that you have on per visit. Is that pretty comparable?

<A – Tony Strange>: It's pretty comparable across disciplines.

<Q – Whit Mayo>: Okay. And I guess just kind of thinking out the balance of the year, you've always seen historically a little bit of lumpiness. So presumably these gains should probably even pad out a little bit as we just think about the back half of the year. Am I thinking about that right?

<A – Tony Strange>: Well I'm not sure your definition of lumpiness. So I'm going to have to guess at what you mean on that. I think if you're referring to seasonality, there is some seasonality in this industry. The third quarter tends to be a little lighter than the first and fourth quarter. Second, a little bit, but third quarter is kind of when you see that dip. And I think we've taken that into account when you look at our 2009 projections that John talked about. I think we have that factored in.

<Q – Whit Mayo>: Okay, great. And the second question I have is for John and it's really, I guess my curiosity that sparked a question more than anything. But how has your dialogue with your bank syndicate changed at this point. None of you guys have any bonds, so it's kind of tough for us to get a sense for how the credit markets view the risk around home health right now. But we'd just like to have an idea of the conversations you're having with the banks right now and their perception or their perspective on the risk.

<A – John Potapchuk>: Well, I think Whit, right now, and we're in a great financial position. Our banks have been supportive. We talked over the last quarter to each one of the rating agencies that is very supportive and impressed with what we are doing. But yet in terms of changing our rating as an example, that because of the uncertainty of reimbursements, they're holding up any change until we get some clarity from that regard. But overall, I think our relationship with the banks is strong.

<Q – Whit Mayo>: Okay, Well said, thanks a lot guys.

<A – John Potapchuk>: Sure.

Operator: Our next question comes from Ralph Giacobbe with Credit Suisse.

<Q – Ralph Giacobbe>: Thanks, good morning. I was wondering if you could maybe just talk about your recent willingness to make those acquisitions just in light of the uncertainty of the reimbursement outlook, and basically how are you valuing the valuation of the acquisitions?

<A – Tony Strange>: Well, that's a fair question, Ralph. And John mentioned it in his part of the call. He talked about this bringing new geography to our Company, so specifically targeted on certificate-of-need states. And so where it makes strategic sense for us to expand our service area in those CON states, when we've seen the opportunity to go in and look at small acquisitions we have taken that. In terms of valuation, these are smaller deals, some of which have been hospital based agencies.

We've been able to factor in what we believe is a pretty conservative look at what reimbursement might be in the future and so as a result we've seen valuations tick down just a little bit. And so that's allowed us to kind of move forward on this – on the acquisition front from a smaller deal perspective. The larger deals are still sitting on the sidelines; rightfully sellers are looking at this saying, now it's probably not the best time to sell. Buyers are looking at it as well. I'm not willing to pay up given the uncertainty in reimbursement, so we're not really seeing a lot of activity in larger deals.

<Q – Ralph Giacobbe>: And any willingness to share what your conservative estimate is for reimbursement?

<A – Tony Strange>: No, sir.

<Q – Ralph Giacobbe>: Fair enough. In your comments and I think in the release in terms of the guidance you said that just a little more it reflects 53 weeks of activity in '09. Is that consistent sort of with prior guidance or is that something new? I didn't think it was in last earnings call.

<A – John Potapchuk>: No Ralph we – when we first gave our outlook back in November and then reaffirmed that in February and actually after that it's always been 53 weeks. What happens is our accounting policy is, it's on a fiscal year ending the Sunday closest to December 31. So really every five years we have a 53rd week. That's the case in 2009 and that has been the case throughout our guidance.

<Q – Ralph Giacobbe>: Okay, great. Thank you.

<A – John Potapchuk>: Sure.

Operator: Our next question comes from Darren Lehrich with Deutsche Bank.

<Q – Darren Lehrich>: Thanks. Good morning everyone. I do have a couple of things here. I guess the first would be for John and if you could just maybe talk through the margins by segment, as we typically see in your Qs, just for modeling purposes. It would be helpful to get some commentary on that.

<A – John Potapchuk>: Yeah, Darren when you look at – maybe I'll take it from the income statement we presented in the earnings release. The gross margins we reported were 52.6%. Last year's margins were 44% but because CareCentrix was in prior year and as that is a lower gross margin business, if you pull that out, the comparable margin is 51.6%. So we have 100 basis point improvement in margins quarter-over-quarter. That is all in home health where prior year was 52.4%; this year's quarter is 53.5%.

And I think, Darren, when you take a look at the composition of those margins, I mention on the call about how we're controlling certain levels of our expenses. If you look at the self insurance

reserves, the mileage costs and the material cost as a percentage of revenue, we have improvement of about 150 basis points. If you look at the health and welfare costs, that hurt us by about 50 basis points. We did get a little bit of improvement in margin percentage as a result of the pediatric sales, say about 10 basis points, and the rest of it is relatively flat as a percentage of revenue. So hopefully that helps you.

<Q – Darren Lehrich>: Okay. And that was the core business. The other segments?

<A – John Potapchuk>: In the other segment, meaning the all other segment, the margins went up from 46.3% to 49.4% in the course of the quarter. That's pulling out some depreciation associated with the HME business. That growth in margin was primarily related to the hospice business.

<Q – Darren Lehrich>: Sure. That's helpful. And then I guess if I could just go back to something you alluded to in your release and your prepared remarks, just around turnover, can you just share with us the turnover statistics? And I guess from our vantage point, what's most intriguing is that you have increased your pay-per-visit model and obviously that hasn't had an impact on turnover, so apparently your staff likes that. And I just wanted to get your thoughts around how that model is being adopted and how your people responding to it, and then just specifically a turnover number. Thanks.

<A – Tony Strange>: Well, Darren, let me kind of start at the bottom and work my way back up. Yes, we would not expect implementing pay-per-visit to create a large amount of turnover. So we've not had any negative impact, as you've pointed out. We have had decreased turnover again for the tenth straight quarter. And there's a lot of things that go into that. We do continue to invest in our clinicians. We continue to invest, as John talked about, with our healthcare coverage and other benefits to our employees. And all of those things collectively help us drive that number down. John, have we actually disclosed a turnover number?

<A – John Potapchuk>: I think it's – for 2008, we said it was in the low-20s, I believe. Right now we are running below 20% in terms of turnover.

<A – Tony Strange>: And obviously, Darren, obviously we're going to reach a point where continued improvement becomes very, very difficult and we'll find that point – some place we'll continue to maintain. But with that said, I think that as we continue to invest in our specialty programs, there is a certain esprit de corps that comes with that.

The ability to attract clinicians to a higher clinically development-oriented company has been very beneficial to us. In addition to Charlotte Weaver, our Chief Clinical Officer, is leading an initiative to implement a clinical ladder in the field that is something that allows clinicians, while they are still at the patient's bedside, to invest in their careers, improve the educational requirements related to their career. And so all of those things over the next three to five years will continue to benefit us from a standpoint of reduction in turnover, which will ultimately translate into increased capacity.

<Q – Darren Lehrich>: Great. And Tony, if I could just clarify one thing that you said with regard to the Washington fund, you laid out, I guess, a handful of items that you described as maybe being in play. Can you describe for us, are those the things that are currently on the table? Are those things have been under discussion? I'm just trying to get a sense for whether all of those things are things we should be thinking about in the current construct?

<A – Tony Strange>: Darren, I'm not going to speculate which of those things may or may not be included in a final bill. I think what I was trying to indicate by listing those out is that these are the types of things that are being discussed. These are in proposals. Some of them are in certain proposals, some of them are not in other proposals. So it's a very fluid process and I think any speculation on the outcome wouldn't be prudent on my part.

<Q – Darren Lehrich>: Sure. Understood. Thanks.

Operator: Our next question comes from Newton Juhng with BB&T Capital Markets.

<Q – K. Newton Juhng>: Hey, good morning, gentlemen. I did want to ask a quick question here on just the guidance implications for the back half of the year. As I understand, third quarter being a little weak. However, averaging out what we have on the top end of the guidance, really only comes to about \$0.54 per quarter. I just was wondering if you could – I guess one of the things I saw was the tax rate was a little bit lower than expected this quarter from at least what I was modeling. So is that part of the reason why we are looking at an average number here for the back half of the year. It's a little bit lighter?

<A – John Potapchuk>: That...

<Q – K. Newton Juhng>: That were posted in this quarter?

<A – John Potapchuk>: Yes. Newton, that's a good point. The tax rate was a little bit lower in the second quarter. We had the benefit of the deductibility of certain CareCentrix transaction costs, offset by the non-deductibility of capital losses on the auction rate securities that we sold. But the net of all that brought our effective rate down by 1%, 1.5%. So that's one piece of it. The seasonality Tony mentioned is certainly a second piece. And if you go back to prior history, you would see that the third quarter – there is a little bit less demand, and because of vacations and that sort of thing, the margins can slip a little bit in the third quarter. And then as we continue to work on projects, technology and the like, all that's baked into the second half anticipated results.

<A – Tony Strange>: And Newton, and in addition to that, on the last call, one of the things I mentioned that in 2009, that one of the areas of investments that we were making was into our sales organization. And we'll continue to make investments into new sales resources in the third quarter and – actually through the fourth quarter. And we don't expect those resources to be fully productive for six to eight months. So that will continue to tug on those results just a bit.

<Q – K. Newton Juhng>: Got you, okay. That's really helpful to get that kind of clarity. The other thing I was wondering about was in the hospice group, the really strong results, [inaudible] at this point. I'm just wondering, if that was strictly stronger census here or – wondering if this is a kind of thing that we should be moving up our assumption as to what can be done out of this group or whether or not we should be looking at this as more of a just a strong one-time quarter.

<A – John Potapchuk>: Newton, let me just clarify the numbers. The hospice revenue was up almost \$4 million. And of that, about \$2.3 million was internal revenue growth. The remainder was a result of acquisition. You may recall in the third quarter of last year we purchased some home health CONs in the Charleston, South Carolina area, and that also part of that was the hospice of Charleston. So that's in that number on a year-over-year basis. But with that being said, same source patient days were up nearly 10%.

<A – Tony Strange>: And to answer your question, it's not just census growth. Obviously that drives the top line. But we have seen leverage on the bottom line and that we've been able to translate that into increased profitability. So it's not strictly a revenue story, but it's a revenue and discipline around operations. Someone asked me a similar question on the call in the first quarter and I was hesitant to talk about that, our results in the first quarter being a trend, but I'm extremely proud of the people in our hospice organization. They have done a really good job and I'm expecting the trend to continue.

<Q – K. Newton Juhng>: Got you. Thanks so much, Tony and John.

<A – Tony Strange>: Thanks.

Operator: Our next question comes from Brian Tanquilut with Jefferies.

<Q – Brian Tanquilut>: Hey, good morning, guys. Congratulations. Hey, Tony, you talked about specialty programs. I was just wondering if you can give us a sense of where your penetration and the rate is right now. And you also talked about potential new programs that you guys are developing, if you can just elaborate a little on what you're looking at in that regard.

<A – Tony Strange>: Well, penetration, you mean amongst our locations?

<Q – Brian Tanquilut>: Exactly, yes.

<A – Tony Strange>: Well, if you think about it, John talked about close to nearly 400 locations or call it in the mid three's. And we have five fully functional mature specialty programs today. So you could easily get to a denominator somewhere in the 1,500 range and we're at about 350, expecting to be north of 400 by the end of the year.

So from that standpoint, we've got plenty of runway to continue to drive specialties for the foreseeable future. As it relates to the second part of your question, I've not – we've not publicly disclosed the programs that we're working on. However, what I can tell you is that they are focused on chronic diseases, specifically those that have been shown to have a material impact in savings to CMS related to chronic disease in our elderly seniors.

<Q – Brian Tanquilut>: Okay. And then follow-up question, you also talked about capacity and how you are attracting nurses. I was just wondering what you are seeing right now in terms of your ability to hire nurses, with the economy being where it is and we hear a lot of stories of nurses going back into the workforce. Are you seeing any of that? Or is nurse wage inflation tempering a little or I just wanted to hear your thoughts on that one?

<A – Tony Strange>: Well, that's a good question, Brian. Anecdotally, I can tell you the same kind of stories about nurses who've retired coming back into the workforce, nurses that had chosen to be, stay at home moms coming back into the workforce, nurses who had originally planned on retiring not retiring. We have anecdotal stories like that a good bit.

I would tell you that some of the – I would classify it as some of the pressure might have been relieved in terms of our ability to attract new nurses. I have not seen that translate into lower salaries, less pressure on wage inflation, less pressure on increased benefit costs. And that's one of the messages that we're delivering in Washington is that there really is a nursing shortage.

And that this nursing shortage is causing cost to continue to rise, and therefore, we have to protect our reimbursement in order to be able to meet those demands. I will add that with all that said, our biggest difficulty and I think I could say this generically for our industry, is still in the therapy side of the business. We still – the physical therapies and occupational therapy shortages is for real and significant.

<Q – Brian Tanquilut>: Okay. Thank you. And congrats again.

<A – Tony Strange>: Thank you.

Operator: Our final question comes from Sheryl Skolnick with CRT Capital Group.

<Q – Sheryl Skolnick>: Good morning and thank you very much for letting me slip in here. There is one minor follow-up question that I need to ask just a data point and then I actually have a substantive question, so if you allow me to. John, there -- on your term loan, is there an

amortization that you have to pay quarterly on that of slightly less than \$1 million? Is that still needed to be paid?

<A – John Potapchuk>: No, because you may remember, Sheryl, when we took out that loan as a result of the Healthfield acquisition in February 2006, that part of that agreement where we made enough prepayments in the first couple of years that we no longer have any principal payments until due in March of 2013.

<Q – Sheryl Skolnick>: John, that's a balloon. Thank you for that clarification. I just wanted to make sure that that was the case. Okay. And then my more substantive question and I have to ask this is, you've done extremely well taking a company, Tony, that was not really participating in Medicare programs and obviously perhaps to its profitability detriment, its growth detriment, and its patient service detriment, and clearly turned it around in terms of in conjunction with your members of management and the Board.

And you are now in a situation where you are very nicely, healthily profitable and growing -- growing rather nicely Medicare-oriented Company, both in terms of hospice and home care. Doesn't that -- with a quarter like this at this point in time, doesn't that present a problem in Washington? And how do you deal with the fact that you're not only profitable, but you're growing, and you're growing in a rather nice way at a time when others like not-for-profit hospitals and maybe even some for-profit hospitals are really arguing that they are -- hard to tell from some of these hospital reports, but the not-for-profits certainly are going to be arguing that they are struggling. So how do you avoid the response from Congress? Or do you get the response from Congress that says, yeah, we hear you you're cost-effective. We don't want to put you out of business, but you got to give up something.

<A – Tony Strange>: Well Sheryl, first of all, your first part of that question sounded like a compliment--

<Q – Sheryl Skolnick>: It is. And it's unfortunate you work this hard only to have the environment sort of slap you in the face and say, okay, fine, you made money, I'll take it.

<A – Tony Strange>: Yeah, so if it's all right with you, I'm going to spend five or six seconds just kind of relishing in that for just a moment.

<Q – Sheryl Skolnick>: Please do. It'll be my pleasure.

<A – Tony Strange>: Secondly, I'm making no apologies for the performance of our Company. I'm proud of our results. I'm proud of our employees, this group of people who have executed flawlessly against our strategy. And I'll make no apologies to anybody about how our Company has performed. As it relates to the latter part of that, the demand for our services is increasing. And you can't legislate that away. The senior population is the fastest growing segment of our population today.

Matter of fact, there are predictions that the over 80-year old category will be the fastest growing segment of our population for the years to come, that in and of itself is going to drive demand. And whether we affect reimbursement or not, we cannot ignore the fact that home care is a solution for our healthcare crisis today. And so the message that we are delivering in Washington is that we can address rates and we can tweak that one way or the other, but the demand is going to be here and it's a cost-effective alternative to hospitalization. So I go back and not apologizing for our growth. Matter of fact, I will tell you that our growth is -- we've not seen what our growth is going to be yet. I believe that the growth in this industry will accelerate over the next decade. And I plan on being here and being part of that.

<Q – Sheryl Skolnick>: That's great. Appreciate it. Do you have any prospects of rounding out the Board yet?

<A – Tony Strange>: Great question. And thanks for bringing it up. As we talked about on our first quarter call, we currently have six Board members and it is our intention to bring on an additional three Independent Directors. And I think I mentioned on our call, we hope to do that before the end of the summer. We've spent the last 90 days vetting candidates and doing a lot of background work, interviewing candidates. And I feel pretty comfortable that in the near-term, we'll be able to fill all three of those vacant slots that will take our Board of Directors up to nine.

I'll remind you that we were being very selective with the types of Board members that we wanted to bring on. We wanted to bring on one Board member with IT experience, we wanted to bring on a second Board member that had more of a clinicals and policy type, healthcare policy background, and the third Board member we'd like to bring on is another operator, business, finance-type person. And given that a very fairly targeted recruit environment, I believe we'll be able to bring on some really quality Board members between now and the near-term.

<Q – Sheryl Skolnick>: Okay. And are you just building the cash balance just as maybe to pass for a rainy day?

<A – Tony Strange>: Well, that's a fair question. I mean, I guess you could categorize it that way, but I think with the uncertainty in reimbursement, to be sitting on a strong balance sheet with really strong cash reserves gives us a lot of flexibility to maneuver in the event that they are changed to a reimbursement that we may or may not anticipate. So to answer your question, I'm not looking to -- we are not looking to run out and find a place to put that cash today.

On the other hand, I think as we demonstrated with our acquisitions in the second quarter, we are not hiding. We are not putting our head down and pretending and just kind of going into a hibernation mode either. I mean, if there is an opportunistic acquisition that presents itself that can be accretive and we believe is strategic for Gentiva over the next decade, we're prepared to go and do that.

<Q – Sheryl Skolnick>: Okay, excellent. Thank you so much.

<A – John Potapchuk>: Thanks Sheryl.

Operator: That was our final question. I'll turn it back to Mr. Strange for closing remarks.

Tony Strange, Chief Executive Officer and President

All right, well good. Thanks again everybody for joining our call today. And I would like to again give a special thank you to all of the Gentiva employees. I am very proud of you and proud of your results and your commitment to our patients. Have a great day.

Operator: Thank you for participating in the Gentiva Health Services second quarter 2009 earnings conference call. Please disconnect your lines at this time and have a wonderful day.

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