
MANAGEMENT DISCUSSION SECTION

Operator: Good morning, my name is Brandy and I will be your conference operator today. At this time, I would like to welcome everyone to the Gentiva Health Services First 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 period. [Operator Instructions]. As a reminder this conference call is being recorded today April 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 and General Counsel

Good morning, everyone. I'm Steve Paige, General Counsel of Gentiva Health Services and this is Gentiva's first 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 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 a 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 36 hours and will be available for the next 12 months. Following today's prepared remarks, we'll open the call to 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. Gentiva started 2009 with a very good first quarter. Our financial results are on track with our plans for the year and we've reaffirmed our 2009 guidance in our earnings press release issued this morning.

Revenue for the first quarter totaled approximately 289 million which represents growth of 18% over last year's first quarter excluding CareCentrix of which the majority interest was sold in Q3 of 2008. Our EBITDA for Q1 was up 19% to 28.2 million and our adjusted net income came in at \$0.43 for the quarter, a 59% increase over last year.

Our core Home Health business continued to lead the way for Gentiva in Q1. Home Health revenues were up 19% in first quarter compared to last year, to 258 million, that's also sequentially higher than the 249 million that we reported for the fourth quarter.

Along with the financial results, I'm pleased with the progress that we've made on several of our operational fronts. We've increased our specialty offerings to 315 programs in the field. In the first quarter, we've rolled out 15 new programs and have ramped up to a pace that should meet our target of a 120 new programs in 2009.

I'm specifically proud of the outcomes that are being achieved with these programs and the importance that they will play in our communications to policy makers about the value of Home Health and the impact that it can have on the overall healthcare spend. I'll have more to say about that in just a few minutes.

Along with our specialty programs, another key strategy at Home Health is increasing both the capacity and the productivity of our clinician base. On the capacity front, Gentiva had an outstanding recruiting effort for the first quarter by adding over 200 new clinicians. As the demand for home care services continues to increase, it is imperative that we create the capacity to support the growth and manage the cost appropriately.

We continue to make progress on our effort to convert clinicians to a pay-per-visit structure; this strategy allows the company to flex its direct cost structure with the changes in revenue while at the same time allowing the clinician to exert more control over their income.

In Q1 of 2009, 70% of our clinicians were paid on a per visit basis, up 10 percentage points from the 60% in Q4 2008. While we'll never be at 100% I expect this trend to continue over the next couple of quarters as we identify areas to further improve productivity. I'm also proud to report that the first quarter marked our ninth straight quarter of reduced turnover.

In summary it's been another good quarter for our Home Health business and I would like to thank everyone throughout the field organization and our leadership teams who continue to drive our results.

Turning to our other services, revenues and profitability, each grew by 14% compared to Q1 in 2008 and inline with our projections. Profit growth was primarily driven by increased margins in our hospice business. Our hospice revenues are continuing to grow and we're beginning to see some traction in converting this growth to profitability. While there remains additional work to be done in this area, I'm pleased with our progress in the first quarter and I really appreciate the effort by these employees as well.

So all in all it was another good quarter for Gentiva and we're going to continue to focus on executing our strategies and delivering the types of results we're able to share with you today.

I'll ask John to go into more detail on those results in just a moment. But first, I'd like to comment on a couple of topics that have been in the news from both a Gentiva and a home health industry standpoint.

Last month, we filed an 8-K reporting that five of our directors have informed us that they would not stand for reelection at our May 14, annual meeting of our shareholders. We thank them for their past service and wish them well. As Gentiva's Board will consist of six directors immediately following our annual meeting, as a result our Corporate Governance and Nominating Committee will seek additionally highly qualified and independent directors to serve on our Board. We expect to complete this process within the timeframe set forth in the NASDAQ rules and in accordance with the company's bylaws.

I'd like to turn our attention towards the events in Washington affecting our industry. As you're aware, the Obama administration proposed a budget that contained a reduction specifically targeting home health reimbursement. In early April, both the House and the Senate published their

budget resolutions and while both had reductions related to overall healthcare spending neither targeted home health specifically.

Our Chairman, Ron Malone and I have spent a great deal of time in Washington working with industry leaders focusing on educating legislators on the value of home health and specifically the role that it plays in reducing the overall healthcare spend.

Our industry association, the National Association of Home Care has stepped up its communication efforts in collaboration with other advocacy groups in order to ensure that policy makers understand that the Medicare home health benefit and how it can be used to mitigate the high cost of more expensive settings while giving all Americans what they want, independence at home.

One of those groups is the Alliance for Home Health and Quality and Innovation formed by six industry leaders, including Gentiva, about a year ago, the Alliance's mission is to further education, research and advocacy in support of the patients who benefit from home health and to have a strong and effective voice in shaping healthcare policy for our seniors.

Last year, the Alliance commissioned Avalere, a well respected independent research group, to perform the first study of the CMS data to evaluate how the use of Medicare home health benefit impacts the total healthcare cost for patients being discharged from acute care facilities with home care versus those discharged without home care.

We believe this type of work will prove to be very valuable in getting the message out to legislators and policy makers that home care is really a part of the solution and not a part of the problem.

With the National Association of Home Care and the Alliance working closely together, we believe that industry has never been more united in its efforts on behalf of the Medicare beneficiaries and their families. We expect all of these constituencies to play a role in the industry's advocacy efforts as we demonstrate how important it is to our healthcare continuum that home health be a vibrant, innovative as well as an accountable industry.

With that, I'll summarize by saying that I'm extremely proud of the results that our leadership team is producing and I'm confident in our outlook for 2009. I'm also confident in the work that's being done in Washington by the Alliance and the National Association of Home Care. And while I can't speculate about the outcome of the proposed healthcare reform, I can attest to the most proactive and unified effort in Washington by our industry that I've witnessed in my 24 years in the home care business.

I'd like to again thank all of our employees, especially our caregivers in the field, for their commitment to our patients and our performance.

I'll now turn the call over to John for some further insight into our results.

John Potapchuk, Executive Vice President and Chief Financial Officer

Thanks Tony. And good morning, everyone. Gentiva's first quarter results were highlighted by the strong overall financial performance from our core Home Health business and the continued successful execution of our growth strategy.

Before detailing our results, I want to note that the 2009 first quarter does not include operating results from CareCentrix but the prior year quarter did. During my discussion I will provide adjusted numbers which exclude CareCentrix operating results as well as special charges relating to restructuring and integration costs for both the 2008 and 2009 periods to give you an apples-to-apples comparison.

During the first quarter of 2009 revenues were 288.9 million compared to 321.6 million the same period last year. Excluding CareCentrix, net revenues grew 18% driven by the Home Health segment which contributed 19% revenue growth.

EBITDA results were strong as well. As Tony noted, EBITDA was up 19% over the year ago quarter; however, our adjusted EBITDA which excludes restructuring and integration cost, increased 21% to 29.1 million.

Adjusted EBITDA as a percentage of net revenues increased from 7.5% in the first quarter of 2008 to 10.1% in this year's first quarter. If the year ago EBITDA numbers were further adjusted to exclude CareCentrix operating contribution and related corporate expenses, adjusted EBITDA would have increased 48% in the first quarter of 2009 compared to the prior year period. And the adjusted EBITDA margin would have increased about 200 basis points between the 2008 and 2009 first quarter periods.

Our GAAP net income was 18 million, or \$0.60 per diluted share, for the first quarter of 2009. These results included a non-recurring pre-tax net gain of 5.8 million or \$0.19 per diluted share from the sale of certain branch offices specializing primarily in pediatric home healthcare services. And the charge of \$0.02 per diluted share relating to restructuring and integration cost associated with the consolidation of various corporate and back office functions.

Gentiva's adjusted net income which excludes the non-recurring gain on sale and the restructuring and integration costs rose 61% for the quarter to 12.7 million. That represents \$0.43 per diluted share in the 2009 first quarter, up from \$0.27 per diluted share in the first quarter of 2008.

Total episodic revenue for the quarter grew by 29% to over 202 million, with about 186 million of that amount relating to Medicare PPS. The growth in episodic revenue was driven by double-digit increases in both number of episodes and revenue per episode.

About four percentage points of the growth in episodic revenue resulted from the impact of acquisitions completed during the year 2008. During the quarter, 78% of our total home health revenue was paid on an episodic basis compared with 72% in the prior year period. All but six percentage points of the 78% figure was Medicare revenue.

Moving to specialties, our innovative specialty programs continue to help drive Gentiva's revenue growth. During the quarter, specialties comprised about 35% of our total Medicare home health revenue compared to 28% in the first quarter of last year and 33% in the 2008 fourth quarter.

First quarter operating contribution for home health which represents EBITDA before corporate expense allocation was 43.2 million, up about 12 million from the first quarter of 2008.

I'll now review some of the underlying operational statistics that are supporting our Home Health segment growth. During the first quarter, there were about 46,900 admissions on an episodic basis, a 7% increase from the same period last year.

Total episodes in the first quarter were approximately 66,700, up 12% over the 2008 first quarter. Revenue per episode was about \$3,030 up about 16% compared to the prior year period. The increase in revenue per episode between the 2008 and 2009 first quarters resulted from the continuing shift in mix towards higher acuity patients. And a very conservative view toward revenue recognition in the initial months, following revisions to the Medicare reimbursement system implemented in January 2008.

On a sequential basis, revenue per episode in the 2009 first quarter was down about \$10 compared with the fourth quarter of 2008. Third quarter revenues from our other services, of which hospice

revenues represents about 56%, showed improvement with a 14% increase compared to the prior year period.

Operating contribution for the segment also increased 14% to 3.2 million, compared to the first quarter of 2008. Hospice revenues in the 2009 first quarter was 17.6 million, up 3.6 million versus the prior year period due to both acquisitions and same-store growth. Hospice census was about 1,470 patients at the end of the first quarter, compared with 1,250 patients at the end of the 2008 first quarter, and 1,350 patients at year-end 2008.

Aggregate net revenues and contribution of the other businesses in this segment which include respiratory services and HME, infusion therapies and consulting were down slightly as we anticipated given the recent reimbursement reduction in the medical equipment business by CMS.

Corporate expenses between the first quarter of 2008 and 2009 increased by about 1.6 million, a portion of which related to incremental restructuring and integration cost. The remaining increase resulted from higher personnel and administrative cost in support of our growing Home Health business, changes in estimates related to certain accrued expenses and timing issues related to the transition of CareCentrix support functions.

Shifting now to cash flow and balance sheet highlights, operating cash flow was 25 million for the first quarter of 2009, compared to 8.1 million for the prior year quarter. In the 2009 period, we used 5.7 million of cash for capital expenditures, and 4.8 million to repurchase nearly 328,000 common shares in open market transactions at an average cost of \$14.68 per share.

Based on the terms of our credit agreement, we don't expect additional share repurchases in the near-term. We also used \$14 million of cash in the first quarter to pay down our term loan resulting in a long-term debt balance of 237 million on March 29. The debt repayments were made in accordance with amendments to our credit agreement using both proceeds from the sale of our pediatric home health branches and proceeds from the CareCentrix transaction that were not reinvested into the business during the six month period following the transaction date. At this point, we have no required principal payments under the term loan until March of 2013.

Turning to other balance sheet items, net accounts receivable was 181.6 million at March 29. Days sales outstanding, which represents net accounts receivable divided by average daily revenues were 57 days at the end of the 2009 first quarter comparable to the level at the end of December 2008.

I am very pleased with this result, as we have historically seen an increase in DSOs during the first quarter of the past several years. During the first quarter, we also made arrangements to liquidate one of our remaining auction rate securities in early April. As a result, we reflected a short-term investment of over 2.5 million in the March 29 balance sheet. The resulting \$450,000 loss on this investment was included in interest expense in the 2009 first quarter statement of income.

At March 29, 2009, cash and cash equivalents was 79.6 million compared with 69.2 million at the prior quarter end. We currently have no outstanding borrowings under our revolving credit facility and our consolidated leverage ratio stood at 2.0 times at March 29, compared to 2.2 times at the end of the 2008 fourth quarter and 3.0 times at the end of the prior year's first quarter.

As a result, we are very comfortable with our current financial position and our ability to access financing to participate in M&A opportunities. We are reaffirming the full year outlook that we provided on our February 18 earnings call. Full year net revenues are expected to be in a range of 1.14 billion to 1.18 billion.

Our 2009 outlook reflects double-digit revenue growth, after excluding from 2008 revenues both CareCentrix and the home health branches that were sold early this year. Diluted earnings per

share is expected to be in a range between a \$1.72 and a \$1.80 excluding the restructuring and integration costs which are estimated to range between 3 million and 5 million for the full year.

Gentiva's 2009 outlook represents an increase in diluted earnings per share of between 20 and 30% as compared with 2008 pro forma results which are based on the assumption that the CareCentrix divestiture had occurred at the beginning of 2008.

Our outlook excludes the \$0.19 per diluted share net gain resulting from the sale of our pediatric care branches during the first quarter. Also, please note that our fiscal year ends on the Sunday nearest to December 31. Therefore, 2009 will include 53 weeks of activity.

Gentiva is in a strong financial position and we are confident about the growth opportunities ahead. That concludes my remarks.

Operator, we will be happy to open the call for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. Our first question comes from the line of Ralph Giacobbe with Credit Suisse.

<Q – Ralph Giacobbe>: Great, thanks, good morning. I guess can you help us out on the organic side, the Home Health revenues, I guess, up 19%, did you said four percentage points was acquisition related. Is that fair?

<A – John Potapchuk>: Ralph, the episodic revenue, overall was 19% – the episodic revenue is up 29% and of that 29%, 4% was the carryover effect of acquisitions completed in 2008.

<Q – Ralph Giacobbe>: Okay. Anyway to sort of break that down price volume. I'm sorry price, yeah, price volume.

<A – John Potapchuk>: Well, if you think about – and I'll focus on the episodic revenue. Of that 29% we're saying 4% relates to acquisitions, 16% relates to revenue per episode increases, and the remaining amount is volume. So that's 8 to 9%, on just same store volume.

<Q – Ralph Giacobbe>: Right, okay. All right, that's helpful. And then just my follow-up question, can you tell us what percentage of your admissions come directly from the physician office?

<A – Tony Strange>: I don't think we've – I don't think we've broken that down, I don't think we've broken that down publicly before, but as a general comment we're pretty well diversified between that which comes out of a hospital, that which comes from the physician but there is also another segment of long term care like assisted living facilities, and nursing homes and across that spectrum we're pretty well diversified amongst those three buckets.

<Q – Ralph Giacobbe>: Okay. So think of it as sort of somewhat – even percentages among those three?

<A – Tony Strange>: I don't think we've given that in terms of specific percentages in the past.

<Q – Ralph Giacobbe>: Okay, thank you.

<A – Tony Strange>: Thanks, Ralph.

Operator: Your next question comes from the line of Darren Lehrich with Deutsche Bank.

<Q – Darren Lehrich>: Thanks. I wanted to just touch on the SG&A levels we saw this quarter and get your thoughts about where do you think you are with regard to bringing SG&A costs down as a percentage for the balance of the year? Could you just help us think about that line item in particular and whether you think there were any unusual one-time costs besides the restructuring that you've laid out in the press release inside this quarter?

<A – John Potapchuk>: Yeah, I think Darren, a couple of things. When you look at our SG&A cost overall for the period, it's a little more than 125 million. Part of the growth of that expense really is in the field to support the growing business. But we're getting some leverage on that, I mean just to put it in perspective, while Home Health revenue grew 19% the related expenses in Home Health were up about 17%. We're getting a little bit of leverage there and I think that will continue as time goes on.

On the corporate side, what you'll see there is an increase year-over-year of 1.6 million but keep in mind reflected in the prior year was some support cost for CareCentrix, that needs to -- that would go away.

So when you look at the corporate expenses year-over-year and really dissect those there are some pieces of those which relate to kind of I'll say non-recurring items. I mentioned in the prepared remarks about changes in estimates. There are some changes there which year-over-year have an impact of roughly \$1 million. That I don't anticipate will recur in total.

In addition, while we're starting to extract CareCentrix support functions away from us and reduce the transition services revenue, we're doing it in a thoughtful way and reorganizing certain functions. So as a result of that, there was some duplicative costs in essence in the first quarter. But again as the year goes away or the year continues, some of those costs should go away.

So if you look at a corporate expense number of 18.2 in the first quarter you know I think, going forward on an average basis somewhere in the 17 million, in the high 16, 17 million, taking out those one-time costs would be a better number to use going forward.

<Q – Darren Lehrich>: Okay. That's helpful. I guess my follow-up just relates to your buyback and then uses of capital. I think you mentioned John that you don't expect any additional buyback. Can you just remind us what you can do under the current credit facility and then maybe Tony just give us a sense for your uses of capital going forward this year, I guess after you sold CareCentrix, the expectation was that you'd put aside some cash to do deals; where are you in I guess executing on more deals?

<A – John Potapchuk>: I'll take the first piece. In terms of our credit facility, we do have flexibility in certain areas such as acquisitions, without getting an additional amendment. I mean we have a basket of up to a couple hundred million dollars of acquisitions. But included in that facility was a limitation on buybacks of \$5 million. So without getting an amendment we couldn't do any more in the near-term. So that's a per year limitation.

<A – Tony Strange>: Darren, as John mentioned earlier, we've really not tapped our line of credit, we've got cash in the bank. One of the things that we've seen in the last couple of months is actually an increase in the pipeline in acquisition opportunities. We want to be very careful and very disciplined about how we approach that because like the rest of the industry we're wrestling with how to value these acquisitions, when we look into 2010 and 2011. However, in some of the smaller deals right now we have – we're being very opportunistic as we look forward to potential acquisitions. So I don't think we've changed our strategy in terms of looking and executing own appropriate acquisitions and if anything might have even stepped up just a hair our own sense of urgency just because the pipeline we have more deals coming at us to look at.

Did we answer your question?

<Q – Darren Lehrich>: Yes.

Operator: Your next question comes from the line of Newton Juhng with BB&T Capital.

<Q – K. Newton Juhng>: Thank you very much. On the hospice side the decision to change how you are accounting for the reimbursement of the nursing home room and board charges. I was just curious what prompted the change this particular quarter and also do you have the amount that was related to that in the current quarter?

<A – John Potapchuk>: Yeah, Newton, the prior policy whereby we reflected that as revenue was really a carryover policy from the time we acquired the hospice business a few years ago. And as we entered 2009 we just took a look at accepted practice in the industry. And given the fact that this reimbursement is more of a pass through what we decided to do is conform to industry practice and net that reimbursement against the direct – related direct cost. The amount for the first quarter was about 2.1 million.

<Q – K. Newton Juhng>: All right. So similar to what was posted in the year ago quarter?

<A – John Potapchuk>: Yes.

<Q – K. Newton Juhng>: Okay, got you. All right, thank you very much.

<A – John Potapchuk>: Sure.

<A – Tony Strange>: Thanks Newton.

Operator: Your next question comes from the line of Brian Tanquilut with Jefferies & Company.

<Q – Brian Tanquilut>: Hey, good morning, guys. Hey, John just going back to Darren's question on SG&A. You know, looking at the SG&A line or the corporate expense line in a quarter-to-quarter basis. Those rose 120 basis points in SG&A, 80 basis points on the corporate expense line. And what is it sequentially that changed between Q4 and Q1?

<A – John Potapchuk>: Yes, when you look at the expenses in the first quarter, I commented to Darren that on a normalized basis that should be – maybe about 17 million so there was some one-time items in there. But if you look at that 17 million versus what we reported in Q4 of 15.2 couple of things that affect that – you know there were some additional restructuring charges, that's about 300,000 more. There are some expenses that you normally incur early part of the year that go away as the year continues. Things like FICA and unemployment cost, things like that. That's about a half a million. And then the other thing that's a little bit different is the FAS 123R expense. In the fourth quarter that was 1 million – I'm sorry – in the fourth quarter it was 1 million, in the first quarter it was 1.8 million, that has \$800,000 impact. The reason for that is in the fourth quarter we incurred additional forfeitures of our stock options, so we had artificially lower expense in the fourth quarter. In the first quarter because of the volatility of our stock price, which is one of these functions in calculating the expense on our employee stock purchase plan, we incurred incremental costs that's another extra two or 300,000. So, between the incremental restructuring charges, the timing of FICA and unemployment and the ES and the FAS 123R, that really explains the sequential change.

<Q – Brian Tanquilut>: Okay. And then, Tony mentioned that you guys hired quite a bit of new FTEs in Q1, should we expect that as a potential driver for gross margins as those new clinicians ramp up over the course of the year or were they pretty much ramped up by the end of Q1?

<A – Tony Strange>: I don't think you would see any big change between Q1 and Q2. Most of the new clinicians that we are hiring – we're hiring on a pay-per-visit structure. So we have that guaranteed productivity built in. The incremental cost that you might see is just the time of orientation where we're really during the early morning process and the expense associated with that. But if you look back at Q3 of '08, Q4 of '08, Q1 of '09 that should be a pretty consistent number. So I'm not expecting a big change between Q1 and Q2.

<Q – Brian Tanquilut>: Okay. And Tony the last question. You mentioned you've been going to DC with Brian quite a bit. Just wondering if you can give us some color on how people in DC, legislators have been receiving the education effort that you guys have been doing up there? Thanks.

<A – Tony Strange>: Well, that's obviously the million dollar question. I will tell you in our trips to Washington, when we are meeting with individual legislators, the overwhelming response is that they understand that home health plays a cost effective role in helping to reduce the overall healthcare spend. And that's the response – almost without exception that's the response you get meeting individually – or at least I've gotten meeting one-on-one with legislators.

The issue about the industry and it's fraud and abuse, that's something that's in the front of people's minds when you talk to them the negative publicity specifically in South Florida, Texas, a couple of other states. So from that standpoint I think the industry has to address how we're going to make sure that we can help, be helpful in the process of weeding out the merit providers. The other thing that I hear a lot of discussion on is the industry is going to have to do a better job of presenting data. While everybody knows intuitively that home health is a more cost effective means of treating patients with chronic diseases, the industry has not done a good job in presenting data to help back that up.

Now what I mentioned in my prepared remarks that the Alliance for Home Health Quality and Innovation was formed about a year ago and I mentioned that Avalere study. While I don't know the results of that study I am in hope that, that study will be available to the public – will be made available to the public somewhere in the first part of May. And I am in hopes that that study actually does produce data from CMS to show that patients that are discharged into – that have used home care after an acute care stay, actually spend overall less healthcare dollars than those that did not have home care. And I think that's what the legislators are longing for – is hard facts, that show that what they believe to be true they can now walk in and support it with data, specifically with CMS' data.

Kind of long winded, but did we get your answer to your question somewhere in there?

Operator: Your next question comes from the line of Whit Mayo with Robert Baird.

<Q – Whit Mayo>: John, can we go back to the accrual changes for a second that you mentioned changes in estimates, just can we get a little more granularity as to specifically what that is, what drove it and just any color? Thanks.

<A – John Potapchuk>: Yeah. I'll give you a couple of different examples with -- in the first quarter of 2008 as an example, we had an accrual for certain professional costs, audit fees that sort of thing relating to 2007. We ultimately found that that was over accrued by a few hundred thousand dollars. So we took that credit back in the first quarter of 2008.

So, on a comparative basis, that's lowering expense from the prior year. The other thing is you may recall is we were matching up as we go through the year certain benefits for instance an incentive compensation accrual, and in the first quarter of last year we were running below plan in that first quarter. You'll recall that \$0.27 was below estimates and now I think it's fair to say that this first quarter of this year we're above estimate. So the difference in the accrual between one year and the other has resulted in just the company's performance and that's reflected in corporate expenses.

<Q – Whit Mayo>: Okay, so it sounds like this is much of a first of a prior year event as it is this year?

<A – John Potapchuk>: Yeah.

<Q – Whit Mayo>: Okay. And my second question, I know I'm risking getting shot down here pretty quickly. But I got to ask about the Board, the size of the Board now, I don't know if Ron is there. But can you kind of talk about what you're targeting in terms of an overall size going forward and remind us just sort of rules and timing, what to expect over the next few months?

<A – Tony Strange>: I'm not going to shoot you down I think that's a fair question. Let's start with the first of those and as I said in my prepared remarks on May 14th we'll be down to six Board members. We currently have 11 members today. Our goal is to very quickly bring on an additional three members, specifically we are looking to bring on in terms of expertise – is we would like to find an independent director that bring some IT experience with him. In addition to that, we'd like to

find a director that has some clinical and policy experience. And then a third director that brings operational and financial type of experience with him.

That would take our Board up – back up to nine and we believe that's a manageable number for a Board, for a company our size. As relates to the timing, the NASDAQ says that we have a 180 days from May 14th to be in compliance with the majority of our members being independent.

Our goal is to bring all three of the members on at really one time just to be a little more efficient in the process. But in any event we expect to have those members on board well within the 180 days. Our goal is to, some time before the end of the summer to kind of have that wrapped up.

<Q – Whit Mayo>: Okay, very helpful. Thank a lot guys.

<A – Tony Strange>: Sure.

Operator: Your next question comes from the line of John Ransom with Raymond James.

<Q – John Ransom>: Hi, just looking at your numbers, it's implied that maybe your re-certification rates are starting to move up a little bit. Is that the case or there is something that we're missing?

<A – John Potapchuk>: On a percentage basis, it's moving up a little bit but I think, John when I look at, one statistic I look at, episodes per admission, for the quarter I believe that was 1.42 and when I go back over the last year, year and an half it's been hovering around that 1.4 mark.

<A – Tony Strange>: But that was a quantitative response to your question, a qualitative response is that as we rollout these additional steps with programs specifically within senior health and within the neurorehabilitation program, that patient – that patient profile – that CVA patient, that patient is going to stay on our service longer because of the acuity levels of the patient. So as we get those programs rolled out it wouldn't surprise me if that number were to eke up a little bit. But we don't expect massive changes in it at any time soon.

<Q – John Ransom>: Thanks. And secondly [inaudible] document out yesterday gives a little more granularity on bundling and I mean so this has kind of moved from something Obama proposed to something Congress is considering in detail as part of the healthcare plan. So I wondered what your updated thoughts were about bundling and how you would manage the process of cutting deals with thousands of hospitals and going from being a direct contractor to Medicare to being a subcontractor to hospitals?

<A – Tony Strange>: Well, let me go back and review something that was asked on an earlier question. The referrals coming to us from post acute facilities do only represent a portion of our business. So the background of your question is only talking about a smaller portion or a less than majority portion of our business.

With that in mind, there is still a lot of open discussion about who may control that process and again you made reference to what came out late yesterday afternoon, while I had looked at it, I don't profess to, I don't profess to be an expert at some of the ideas. Some of the ideas that I read about were positive in my view. While other things that I read about did leave me with pause and to ask questions, specifically your question about how will we go about if it were to be the case where hospitals controlled an episode within 30 days of the discharge of the hospital, we would find ourselves in a position to go out and do contracts with hospitals under that scenario that, by the way, is not something that's foreign. So it's something that we would just have to react to.

<Q – John Ransom>: And Tony, do you think it would be on the table to share in some of the savings if you would achieve some type of rehospitalization reduction target, I mean, could you – is

that going to be a bridge too far in terms of the sophistication and contracting abilities of not-for-profit hospitals?

<A – Tony Strange>: Well, I certainly think it's a reasonable request. In other words, depending on how you negotiate payments and rates, I think it's a reasonable request to do that. It is not unheard of, matter of fact I have some experience in negotiating. We have had a contract where we shared in the upside; we had an incentive plan based on a reduced hospital length of stay days and so that's – it's not foreign, it's something that has been done. But to speculate as to the sophistication of thousands of hospitals and their ability to do that, I don't know, that I'm prepared today to try to guess about that.

<Q – John Ransom>: Sure. And my other question is: I know one of your competitors is doing a pilot with the payer, have you guys put your feelers out there yet with your payer contacts to start to look at some, global capitation or rehospitalization reduction plans to start getting some data so that you – I mean I know this is 2014, so you've got some time, but do you have any strategic things going on the payer side?

<A – Tony Strange>: Well, probably one of the – I can't attest to all of the home care companies in America, but the ones that I know about, we probably have one of the largest capitated contracts that's still in place today. And we've been gathering data under that contract now for the better part of 15 years. So we do have the capability and the data behind capitation to go out and do that if that opportunity were to present itself.

<Q – John Ransom>: And I guess the direct question, I will jump off after this, is – let's say you have an unmanaged group of patients post hospital discharge and then a managed group of patients post discharge through home health, do you have any kind of preliminary thought as to how much you can move the needle on preventing rehospitalization with some of your specialty programs? Is it 30%? Is that too much? I mean, is it a big number?

<A – Tony Strange>: I don't know how to give you a specific number, John, but in terms of affecting rehospitalization I think we have demonstrated that we do have the ability to help – to move the needle on that number. To give you a percentage number, I don't think we're prepared to do that today.

<Q – John Ransom>: Okay, thank you.

<A – Tony Strange>: Thanks, John.

Operator: Your next question comes from the line of Sheryl Skolnick with CRT Capital.

<Q – Sheryl Skolnick>: Thank you very much. I have just one quick detailed question on the cash flow statement, John, and then a follow-up. The accounts receivable had a big outflow last year relative to this year. Is that related – it was an outflow of almost 20 million last year, outflow 5.8 million this year – is that related by chance to CareCentrix? Or is there is some other issue? Because I would imagine that in CareCentrix the DSOs would be longer.

<A – John Potapchuk>: Yeah there is a little bit of that related to CareCentrix but part of it also, Sheryl, was -- remember in the early part of 2008 the beginning period after the PPS changes, there were some delays...

<Q – Sheryl Skolnick>: Some delay?

<A – John Potapchuk>: ...collecting cash on home health. So at the end of the first quarter, as an example, our DSOs were 63 days at the end of the first quarter 2008.

<Q – Sheryl Skolnick>: Right, okay. I thought there was something that I didn't remember what that was. Thank you for that detailed refresher.

<A – John Potapchuk>: Sure.

<Q – Sheryl Skolnick>: And then, this is a question that I don't know how to answer, so maybe you will be able to help me think this through. Tony, you've spoken about having a more and I think prudent and cautious approach to making acquisitions in this environment, trying to figure out how to value these companies in the face of what might happen or what might not happen in 2010 or 2011. And I'll guess, since you're an expert on home health operations – you've bought companies, you've sold companies -, if you all can't value these companies, how can we be expected to value your stock appropriately?

<A – Tony Strange>: Well, I think that's fair question. I think what it appears to me is that the way people have valued not only Gentiva stock but the stock in our industry is you kind of have to look at it worst case scenario. And that appears to be how folks are valuing our stocks today.

When we look at an acquisition, we look at it from the standpoint of maybe a couple of different scenarios. Worst case scenario – what does it look like? What does it look like if a more expected scenario were to occur? And so – but I think your point's a fair point. It is difficult to value any business today with any kind of uncertainty in reimbursement. And I think as we move throughout the year and through the summer and we get into the fall and even late fall, I think that will become a little bit clearer.

<Q – Sheryl Skolnick>: Yeah, I'd just argue that if it was truly worst case, that cut that was proposed in the Obama budget, no health care, no home health company would have a positive stock price, because that was a pretty nasty cut that was proposed. I'm just trying to break down and understand that.

<A – Tony Strange>: And Sheryl, mathematically, I agree with you, that that's pretty draconian. However, having lived through – having lived through some draconian changes, it also creates opportunity and the stronger companies with the balance sheets in place, companies with the size and scale, maybe acquisition, maybe the acquisition strategy moves from being opportunistic to being predatory under a scenario like that. So the big get bigger.

So I agree with you mathematically, that a worst case scenario is pretty bad but with that would also come opportunity and I think, John and Gentiva has done a really good job of protecting our balance sheet. And because of that, I feel almost – while I certainly don't want it to be draconian, I'm also prepared to react appropriately if that were to be the case.

<Q – Sheryl Skolnick>: Fair enough. Thanks so much.

<A – Tony Strange>: Thanks Sheryl.

Operator: Thank you. We have reached the allotted time for questions. I will now turn the call back to management for closing remarks.

Tony Strange, Chief Executive Officer and President

I'd like to thank everyone again for joining in today's call and we are looking forward to keeping you updated on Gentiva's progress and results throughout 2009. I hope you have a great day and thanks a lot.

Operator: This concludes today's Gentiva Health Services' first quarter 2009 earnings conference call. You may now disconnect.

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