MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Wes and I will be your conference operator today. At this time, I would like to welcome everyone to the Gentiva Health Services Fourth Quarter and Full Year 2008 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] Please note each participant will be limited to one question and one follow up. Any additional questions can be asked by rejoining the queue.

As a reminder, this conference call is being recorded today, February 18, 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'm Steve Paige, General Counsel of Gentiva Health Services, and this is Gentiva's fourth quarter 2008 earnings call. Speaking on the call today are Ron Malone, Gentiva's Chairman; 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 Chairman, Ron Malone

Ron Malone, Chairman

Good morning and thank you for joining us. Gentiva produced a very solid fourth quarter that wrapped up an outstanding year for our company. In addition to delivering excellent financial results, we completed and integrated three acquisitions that expanded our footprint in the core business.

We grew our clinician base significantly while improving retention. We saw the continued growth of our leading specialty programs with the launch of two new services and the expansion of existing programs into many new markets. We divested ourselves of the majority of the CareCentrix business and we significantly strengthened our balance sheet to support our future growth objectives.

These achievements left Gentiva stronger and healthier than ever before as we entered 2009. We are sharply focused on growing and improving our business. Our fourth quarter results, which represented our first four quarters since the closing of the CareCentrix transaction, illustrate the benefits of this focus. I want to take the opportunity to thank all of our employees who have worked so hard to accomplish all these key objectives. They continue to demonstrate a strong commitment not only to performance but also to delivering on our mission of improving the health and well being of our patients and their families.

As you know, we transitioned the CEO role to Tony Strange effective January 1st. I have high expectations for Tony and his team as they continue to drive our vision of growth, excellence, and service to the patients and communities where Gentiva operates.

During 2009 I will serve as Chairman and advocate for our patients and our industry as we continue to drive the message to policy makers and regulatory leaders that Home Health is a key part of the solution to the nation's healthcare challenges.

With that, I'd like to turn the call over to Tony.

Tony Strange, Chief Executive Officer and President

Thanks Ron, and good morning everyone. I would like to take a moment to personally thank Ron for his support and guidance over the last couple of years and for his continued support in the role as Chairman. I'd also like to thank our entire Board of Directors for the confidence that they have displayed in me and the rest of the management team at Gentiva.

Over the past several weeks I've been asked on more than one occasion as the new CEO of Gentiva what change in direction can be expected. Based on our results over the last several years including improved clinical outcomes, success in becoming the employer of choice, and the continued growth and improved profitability in our Home Health business, the answer is clear. Our current direction is a good one; the stage has been set, and I believe that we're well positioned to accelerate our performance in 2009.

With that let's turn our attention to our results. Overall we delivered outstanding performance for the quarter as well as for the whole year. Our 2008 EPS exceeded the range that we established at the beginning of last year. It's particularly worth noting that we did this in spite of the divestiture of CareCentrix late in Q3.

Revenue for the fourth quarter totaled approximately 283 million, which represents a 19% growth rate excluding CareCentrix. Our reported EBITDA for Q4 was 30 million, which represents an increase of over 50% year-over-year excluding CareCentrix.

And finally our adjusted net income was $0.44 for the quarter and $1.55 for the year, which is about $0.04 better than the high end of our most recent outlook. A major driver of these results has been the performance of our core Home Health business.

Our Home Health revenues grew by 20% year-over-year and 4% sequentially. The Medicare revenues were up 26% compared to last year and we continue to see positive movement in all of our key metrics. Within Home Health an underlying driver of the continued success is our specialized clinical care. At year-end, we had expanded our specialty offerings to 300 programs compared to 268 at the end of Q3.

Clinical care offered through one of our specialty programs now makes up more than a third of our Medicare revenues for Home Health.

We've made progress with our two newest programs, Senior Health and Neurorehabilitation, expanding them into 24 locations at year-end. The addition of Dr. Charlotte Weaver as our Chief Clinical Officer and our commitment to advancing the care delivery system for the aging population sets the stage for Gentiva to be a leader in clinical innovations specifically targeted to produce better outcomes for our senior population.

We've also made good progress this quarter in our efforts to become the employer of choice for clinicians. Excluding acquisitions we've added approximately a net of 700 new clinicians in 2008 including 160 in Q4. I'm particularly proud of these results given that the holiday season is usually a fairly slow period for people to change jobs. With all the emphasis on recruiting we've also maintained our commitment to retention. We saw a continued decline in turnover, making eight straight quarters of improvement.

Along with increasing our capacity, we continue to make progress toward meeting our productivity targets by converting our clinicians to a pay-per-visit model. During the fourth quarter, 60% of our field clinicians were paid on a per-visit basis. This compares to 53% and 56% for the second and third quarter respectively. Overall, our Home Health business is performing very well and I'm confident that with continued focus and discipline that trend will continue.

Turning to other related services, overall revenues were up 11% compared to last year. Revenue and EBITDA improved sequentially as HME and respiratory services had another good quarter. Hospice revenue increased 12% but I'm still looking for that growth to translate into higher earnings. To wrap up on the results, the fourth quarter was a strong finish to a terrific year for Gentiva. We expect another good year in 2009 as indicated in our press release this morning where we announced that we are raising our outlook for the year. John will provide some more insight on our outlook in just a few minutes.

We expect 2009 to be a very active year for us on several fronts that complement our operating goals. This year we will officially establish Atlanta as the corporate headquarters for Gentiva. This decision is driven by the need to strategically align our support services with our field offices.

Our goal is to create a corporate structure that is efficient as well as effective. In 2009 is also a year when we will be stepping up our advocacy efforts for the Home Health industry in Washington. You have heard a lot about the incoming administration's plan to focus on healthcare reform; there is already speculation about how any reform might affect programs like Medicare.

We will be working to ensure that one constant message is communicated, and that is Home Health is among the best solutions to the nation's healthcare challenges. It is among the most cost effective forms of care for seniors in particular; it's preferred by our patients, and care is being delivered with increasing sophistication, yielding improved outcomes for those dealing with acute episodes as well as chronic diseases.

Along with other industry leaders, we will co-sponsor data analysis, research and education as we collaborate with government agencies and patient advocacy groups, clinicians, and others interested in shaping policy and benefits.

I started my comments by indicating that our strategic direction will not change. In closing I'd like to re-emphasize the three core strategies for the company in 2009. First, growth both in same-store sales and in acquisitions. Second, enhancing our clinical and operational delivery systems both in their effectiveness and their efficiencies. Third, expanding capacity through our recruitment and retention efforts.

I'm proud of our employees and the role that they play in the success of Gentiva. I'm particularly proud of the care that they provide to our patients. I believe this level of commitment makes Gentiva the place to work in home care.

With that I'd like to turn the call over to John for some further insight in our results, John?

John Potapchuk, Executive Vice President, Chief Financial Officer and Treasurer

Thanks, Tony, and good morning, everyone.

Gentiva's 2008 fourth quarter and full year were highlighted by the successful execution of our growth strategy and the strong overall financial performance from our core Home Health business. Before detailing our results, I want to note that the 2008 fourth quarter does not include the operating results of CareCentrix, but the prior year quarter does. Full year 2008 results also include CareCentrix operations through September 24 as well as a non-recurring pre-tax gain net of transaction costs of about 108 million, or $3.72 per diluted share from the sale of the majority interest in that business.

During my discussion, I will provide adjusted numbers, which exclude this non-recurring gain in 2008, as well as special charges relating to restructuring, integration and merger and acquisition activities for all periods to give you an apples-to-apples comparison.

During the 2008 fourth quarter, revenue grew 282.9 million, compared to 313.4 million the same period last year. Excluding CareCentrix, net revenues grew 19%, driven by the Home Health segment that contributed 20% revenue growth.

For the full year 2008, net revenues were 1.3 billion versus 1.23 billion for the full year 2007, representing growth of approximately 6%. If we exclude the revenue contribution from CareCentrix in both years, net revenue grew 14%. EBITDA results were strong as well. EBITDA increased 19% to 30 million, and EBITDA as a percentage of net revenues increased from 8.1% in the fourth quarter of 2007 to 10.6% in this year's fourth quarter.

On a pro forma basis, if CareCentrix's operating contribution and related corporate expenses were excluded from the fourth quarter of 2007, and if special charges were excluded in both the current and prior year periods, EBITDA would have increased 51% in the fourth quarter of 2008 compared to the prior year period. As a percentage of net revenues, pro forma EBITDA increased from 8.6% in the 2007 fourth quarter to 10.8% of revenues in the fourth quarter of 2008. This clearly demonstrates the leverage we can generate as a Home Health focused company with a better mix of episodic revenue.

For the full year 2008, adjusted EBITDA excluding 2.7 million of special charges increased 14% to 116.8 million. This is at the high end of the original guidance of 112 to 117 million that we provided on our Q4 2007 earnings call. As Tony noted earlier, this is particularly noteworthy as the original guidance included CareCentrix for the full year.

Gentiva's adjusted net income rose 44% for the quarter to 13.1 million and 33% for the full year to 45.5 million. That translated into $0.44 per diluted share in the fourth quarter and $1.55 per diluted share for the full year 2008.

Our growth was again driven by our emphasis on increasing the percentage of revenue we receive from Medicare and higher rate commercial programs. Our Home Health Medicare revenue grew 26% over last year, driven by double-digit increases in number of episodes and revenue per episode. Excluding the acquisitions we have made, our same-store Medicare growth in the 2008 fourth quarter was approximately 19% versus the fourth quarter of 2007. Total episodic revenue for the quarter grew by 28% to over 191 million, with about 176.5 million of that amount related to Medicare PPS.

During the quarter, 77% of our total Home Health revenues were paid on an episodic basis and all but six percentage points of that figure was Medicare revenue. The 77% figure of episodic revenues to total Home Health revenue is 5 percentage points higher than the comparable period of 2007. For the full year, episodic revenue and Medicare Home Health revenues were up 21% and 18% respectively.

Moving to specialties, Tony talked about the momentum we have achieved in the rollout of these programs. During the quarter, specialty comprised 33% of our total Medicare Home Health revenues compared to 28% in the fourth quarter of last year. Specialty programs have driven our revenue growth and margin expansion; this is evident in our fourth quarter results. Fourth quarter operating contribution margin for Home Health, which represents EBITDA before corporate expense allocation, was 16.8%, up from 14.5% in the year ago period.

I'll now review some of the underlying operational statistics that are supporting our Home Health segment growth. During the fourth quarter, there were about 39,900 Medicare admissions, an increase of 8% from the same period last year. For the full year, we have had 160,400 Medicare admissions, an increase of 9% over the full year 2007. With regard to episodic admissions, we experienced 43,400 admissions in the fourth quarter and 174,700 admissions year-to-date. This represents increases of 9% and 12% respectively.

Total episodes in the fourth quarter were approximately 62,700, up 13% over the 2007 fourth quarter. Revenue per episode was about $3,040, up about 13.5% from the prior year period. For the full year, total episodes approximated 246,000, grown 13% from last year. Revenue per episode for the full year was approximately $2,850, an increase of about 7% over 2007.

Fourth quarter revenues for other related services, of which Hospice represents about 56% of the total, showed some improvement in the quarter with an 11% increase compared to the prior year period. Operating contribution for the segment decreased 3% to 3.5 million compared to the fourth quarter of 2007. Fourth quarter Hospice revenue grew about 12% over the prior year quarter. Hospice census was about 1,350 patients at the end of the fourth quarter.

Aggregate net revenues and contributions of the other businesses in this segment, which include respiratory services and HME, infusion therapies and consulting, showed improvement compared to the fourth quarter of 2007. Overall, the other related services segment performed better in the fourth quarter than any other quarter during 2008. However, we are not yet satisfied with this segment's overall performance.

Shifting down to cash flow and balance sheet highlights, operating cash flow was about 71 million for the full year 2008, compared to 63 million for the prior year. Days Sales Outstanding, or DSO's, were 57 days at the end of the 2008 fourth quarter, well below the 61-day level at the end of September and 60 days at December 2007. Our billing and collection personnel have done a great job in allowing us to fulfill our commitment to achieve DSO below 60 days by year-end 2008, and I thank each of them for their efforts. Each day of reduction in DSO translates to significant improvement in operating cash flow as we clearly demonstrated this quarter.

Cash and cash equivalents were 69.2 million at December 28, 2008, compared with 61.5 million at the prior quarter end. Long-term debt at December 28 stood at 251 million, a reduction of 10 million since the end of the third quarter as we repaid our remaining outstanding revolving credit borrowing in early October.

Our consolidated leverage ratio stood at 2.2 times at December 28, compared to 2.4 times at the end of the third quarter and 3.0 times at year-end 2007. Based on our cash position and borrowing capacity under the credit facility, we entered 2009 with approximately 75 million available for M&A activities. We are very comfortable with our current financial position and our ability to access financing to participate in M&A opportunities.

Now let me speak about our 2009 outlook. We offered a preliminary 2009 outlook in our third quarter earnings announcement, and we are raising those target ranges today. Full year net revenues are expected to be in a range of 1.14 billion to 1.18 billion, compared to prior guidance of 1.12 billion to 1.17 billion. Our 2009 outlook reflects double-digit revenue growth after excluding the 2008 revenues from CareCentrix.

Diluted earnings per share is expected to be in a range between $1.72 and $1.80, up from the $1.62 and $1.72 range provided in October. Gentiva's 2009 outlook represents a diluted earnings per share increase of 20 to 30% as compared with 2008 pro forma results, which assume that the CareCentrix divestiture had occurred at the beginning of 2008.

Our outlook excludes any impact of future acquisitions and any special charges. Also please note that our fiscal year ends on the Sunday nearest to December 31st, therefore 2009 will include 53 weeks of activity.

Gentiva is in a strong financial position and we are confident about the growth opportunities ahead. We are successfully executing on our strategy of focusing on our higher growth Home Heath business and making investments in our specialty programs and in one of our most important assets, our clinicians.

That concludes my comments. Operator, we will be happy to open the call up to questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Whit Mayo of Robert Baird.

<Q – Whit Mayo>: Thanks guys. First question I guess, starting out with the specialty programs, just, could you kind of give us a sense for what the biggest challenge is that you face rolling that out right now? It sounds like it's frankly just the people, but is there anything more mechanical there? And any sense more of just how penetrated you think you can be with those programs this year?

<A – Tony Strange>: Well, Whit, to answer the first part of your question about what's the biggest challenge and it's the same one we've been talking about now for a couple of years. As the demand for our services continues to increase, the ability to create the capacity to say yes. So a lot of our specialty programs are really focused around highly trained clinicians, being physical therapists as well as highly educated RNs. Our ability to attract and retain that talent is going to continue to be our challenge, to get those specialties rolled out faster. Outside of that, mechanically, there is really nothing that would slow us down. The second part of your questions was related to kind of I think I understood it to be what is the denominator. If we put every specialty in every location, we could have in excess of 1,500 programs out there today, and our current number is just over 300. So, we've got a lot of room before we start thumping up against the ceiling.

<Q – Whit Mayo>: Okay, but any sense of what a target is for – just for 2009?

<A – Tony Strange>: Well, if you looked at our current pace we are probably rolling out somewhere in the ballpark of about 120 or so a year. So, provided that we can attract the clinicians, we could pick that up a little bit, but in the event that there is a gating factor related to our recruiting efforts, again, as the demand increases, we're going to have to stay focused on the ability to recruit them. But we ought to be able to keep the pace we're at and if we can step up our recruiting efforts, might even pick that up a little bit.

<Q – Whit Mayo>: Okay, that's great. And maybe just some details if you could provide us with the announcement yesterday that you sold some of your Pediatric Home Care agencies? Just any sense for the revenue or the contribution margin? And so just any comments you have about that sale would be great.

<A – Tony Strange>: Okay, well, first of all let's look at strategically the default process behind it. Gentiva had, in total, roughly 25, $26 million of pediatric business in total, and for the most part pretty easily segregatable. They're in different branches where we had pediatric-focused branches. And I think staying consistent with the strategy that we've been talking about now for the better part of two years, is really focusing on that adult and the geriatric businesses. The pediatric business really didn't fit within our mission, a noble mission, but it's just not the core competency of our company. The clinicians we're hiring aren't pediatric specialty clinicians, so strategically it makes better sense to find a home with a company that that's what they are doing, really focusing on the peds business.

Overall the piece of the revenue that we sold was somewhere in the – between 20 and $25 million in revenue. Contribution of that was probably in the 2.5 to $3 million range ballpark. But if you look at our '09 guidance that is built into that – the taking out of the revenue as well as the earnings is built into our '09 projections. Does that answer your question?

<Q – Whit Mayo>: Yeah, that was perfect, I appreciate it. Maybe just two quick ones. Just, John can you give us a sense of looking at CareCentrix just equity earnings and the P&L that was negative for the quarter, just any idea for kind of what drove that?

<A – John Potapchuk>: Yeah. They actually, in terms of their operations, Whit, had a pretty good quarter in terms of revenue and just basic EBITDA. There were a number of one-time items in the fourth quarter as they are setting up their new company, various professional fees, legal fees and that sort of thing. And then some amortization of intangibles that brought that down to roughly a break-even number, but operationally we actually did pretty well.

<Q – Whit Mayo>: Okay. So if you were to normalize for some of those one-time items in the quarter and you share your ownership percentage, would that have been a significant needle mover?

<A – John Potapchuk>: Yeah, I'm thinking in our guidance for 2009, which I think is really where you're headed, we're looking at our share of the net earnings in CareCentrix to be roughly about $1 million or so in 2009, but also keep in mind that along with that we are getting additional interest income, because there's an annual amount of $2.5 million on our seller note, and then some reduced corporate expenses. So those are built into the individual line items, but the equity and the earnings would be roughly about $1 million.

<Q – Whit Mayo>: Okay, all right, that's helpful. And then just one final question. Tony, if you could elaborate maybe a little bit on the advocacy initiatives you mentioned in your prepared remarks, just specifically maybe some of the data analysis that you were talking about and kind of where you guys are with that initiative?

<A – Tony Strange>: Well, Ron is still involved with the alliance that we've set up in Washington. And the alliance is meeting now on a very frequent basis and we've hired some additional professional help in helping us build some models related to being able to demonstrate that the outcomes are overall going to save CMS money in the end. It's going to take a concerted effort from all of the companies to make sure that we get that clear and consistent message throughout Washington.

<Q – Whit Mayo>: Okay. All right. Thanks.

Operator: Your next question comes from Ralph Giacobbe of Credit Suisse.

<Q – Ralph Giacobbe>: Good morning, thank you. Just a couple of points to clarify, just want to make sure I heard it right. In terms of Medicare, same-store Home Health revenue you said was 19%, is that right?

<A – John Potapchuk>: For the organic.

<Q – Ralph Giacobbe>: I guess I'm just looking for the organic Home Health revenue

<A – John Potapchuk>: Yeah, 19%, right.

<Q – Ralph Giacobbe>: And then the breakdown between price and volume of that 19%?

<A – John Potapchuk>: What we indicated, Ralph, is the revenue per episode – again, this is the quarter – was up 13 to 13.5% and the volume same-store was in the kind of mid-ish of single digits, 6 or so.

<Q – Ralph Giacobbe>: Okay, all right, that's helpful. And then you mentioned that 33, I guess 33% of your Medicare Home Health revenue was from the specialty programs, is that right?

<A – John Potapchuk>: Correct.

<Q – Ralph Giacobbe>: And then, I guess what percentage of your admissions have a therapy visit associated with it?

<A – John Potapchuk>: Right now it's – we're up to about two-thirds of the episodes.

<Q – Ralph Giacobbe>: Two-thirds?

<A – John Potapchuk>: Yeah, just -

<Q – Ralph Giacobbe>: Any sort of point of comparison from maybe a year ago or – ?

<A – Tony Strange>: Yeah, actually, if you go back to a year ago that number was in the – let's call it today in the low 60% range. That number a year ago was in the high 50s. And – however, with the launch of – with one of our newest specialties, with Senior Health, we've actually seen that number drop back just a little bit. So it's kind of hovering in that kind of as John said, that two-thirds range.

<Q – Ralph Giacobbe>: Okay, that's great. And then just my last one. Can you help us, what percentage of admissions come from an acute or post-acute setting versus directly maybe from a physician office without sort of prior stay at another setting?

<A – Tony Strange>: I don't think we've disclosed much information about our referral trends. However, to give you a qualitative answer as opposed to a quantitative answer, when you look across our business, it's pretty diverse. We're not heavily weighted in physician referrals or heavily weighted in hospital referrals or heavily weighted for that matter in post-acute settings, rehab facilities as well as assisted living facilities and even nursing homes. So when you look across that entire spectrum, our business is pretty well spread out fairly even.

Operator: Your next question comes from Newton Juhng of BB&T Capital Markets.

<Q – K. Newton Juhng>: Good morning, gentlemen. I was curious as to your thoughts on kind of looking out a little bit longer term, the pricing environment. Obviously Ron's a lot of efforts are going to be to try and get a market back. But just in terms of the pricing environment as we look out to like 2010, obviously that's in discussion now, I'm wondering what your thoughts are at this point?

<A – Tony Strange>: Well, that's a great question, Newton. When we look out, obviously there has been a lot of discussion about MedPAC and what MedPAC is recommending, I'd like to remind everybody that MedPAC is one voice and they make recommendations every single year. Sometimes CMS takes the recommendations as well as Congress and sometimes they don't, evidenced by last year MedPAC recommended that we would not have gotten the market basket could increase in 2000 – for 2009, we ended up getting the market basket increase for 2009. When you look over the last seven or eight years – I'm not – I believe there was just once where we didn't get the market basket increase or thereabout, and the rest of the times we have. The rural add-on has come in and gone out on several occasions.

So when I think about 2010, I think you would – I think we would be remiss if we didn't think that there is a possibility that the market basket increase didn't happen, but likewise there might be a likelihood that the rural add-on might come back in. So projecting as to what it may or may not be I think at this point is a little premature on our part. The one thing that I would like to point out though is that healthcare costs are going up. We are paying, I mean for fuel, we are paying for medical supplies, wages are not going down, the ability to recruit and train our clinicians, that cost is going up. When our legislators put the market basket update methodology into place, it was an effort to make sure that healthcare providers had a methodology to keep up with the rising costs and I think it's a critical component of our healthcare delivery system and one that we've got to fight very diligently to protect.

The other comment that I will make is that larger companies and I know that you guys follow the public companies, but larger companies are probably better positioned to handle these kind of variations in reimbursement, whether a rural add-on comes in or goes out and whether market basket stays in or goes out. I think the larger companies are better positioned to withstand some of these changes, but I will make a comment, and I think the National Association of Home Care has backed this up, should MedPAC's recommendations be taken wholeheartedly for 2010, over 50% of the Home Health agencies in America would be put at risk, putting them in a loss position. And I think that message needs to be carried very clearly through our alliance and through our advocacy efforts in Washington to make sure that we understand fully the impact to the whole industry, not to the four largest providers.

With all that, did I answer your question, Newton?

<Q – K. Newton Juhng>: Yeah, it's helpful to get your input on that. I do have a follow-up that's actually more geared towards John. John, the provision for doubtful accounts looked like it came in a little bit lighter this quarter. I was just wondering if you could help us understand the factors that caused the sequential drop-off in that number.

<A – John Potapchuk>: Yeah, I think specifically this quarter it was $1.5 million was the provision. Third quarter was 3.3 and the fourth quarter of last year was 3.3 so you're right in your observation. In the third quarter of '08 CareCentrix's provision was $1.5 million, so that's gone away, so that's really the explanation relative to the third quarter. And at the end of last year, we did have some comment that that there was some additional provision that we took with respect to our V&V and infusion operation to shore up that reserve which didn't reoccur, so those are the reasons for the difference.

<Q – K. Newton Juhng>: Okay, so going forward we should be looking more at this level, in the $1.5 million range?

<A – John Potapchuk>: It's somewhere in the, I'd say 6, $7 million during the year, in that range.

<Q – K. Newton Juhng>: In total? Okay, great, thank you.

Operator: Your next question-

<A – Tony Strange>: Yes?

Operator: [Operator Instructions]. Please hold for your next question.

<A – Ron Malone>: Operator? Operator?

Operator: Yes sir?

<A – Tony Strange>: We didn't hear the question. Move to the next queue.

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

<Q – Arthur Henderson>: Hi, it's actually Art Henderson from Jefferies, thanks for taking the question. Very nice quarter.

<A – Tony Strange>: Thank you.

<Q – Arthur Henderson>: You're welcome. Real quick, I know you talked about $75 million being available for acquisitions or M&A activity, and I was just wondering, Tony, kind of as you look to this year, as I recall previously you guys were kind of in the market looking for bigger kind of things. What is your appetite I guess today in light of what could potentially happen on the reimbursement front going forward? Are you going to be doing, I assume you are going to continue to do smaller stuff but is bigger stuff in the pipeline as well potentially?

<A – Tony Strange>: Well, Art, that's a good question. We're open for business as it relates to acquisitions. With that said, I think we want to be – I don't think we're just going to change our thought process. We're going to be very disciplined in our approach. As John mentioned our balance sheet is in really good shape, we've got cash put aside to do acquisitions, we have access to financing to raise capital if necessary. So if the right opportunity presented itself, whether it's a large acquisition or a small acquisition, I think we're prepared to move opportunistically. With that -

<Q – Arthur Henderson>: Tony – go ahead, I'm sorry.

<A – Tony Strange>: With that said, I think we want to be very disciplined because the credit markets, at least in our opinion for the foreseeable future, aren't going to change a lot. So we want to make sure that we're spending that cash wisely and making acquisitions that are going to be most accretive to our business. We're going to stay disciplined, we're going to look for well-run companies, we're going to stay focused on our core Home Health business. As it relates to size, whether it's a larger acquisition or a smaller acquisition, we're open to both.

<Q – Arthur Henderson>: And are you more comfortable with this leverage ratio or something a bit higher, I guess given the current credit market environment?

<A – John Potapchuk>: I mean, right now we are at 2.2, Art, and again with very favorable terms. I think we certainly have the ability to go up a little bit on that. I wouldn't be uncomfortable in a range up to 3-ish.

<A – Tony Strange>: And that's big words coming from John.

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

<Q – Pito Chickering>: Good morning, guys, it's actually Pito Chickering in for Darren. Two quick questions here. If I back into the EBITDA margin guidance, I guess from new EPS, it looks as if it's at an 11% EBITDA margin, I was curious here what sort of cost cutting measures you guys have taken since the third quarter in order to get to that margin level?

<A – Tony Strange>: Well, I don't know that it's all in cost cutting, and if you go back and remember one of our goals is to continue to change our mix. I think John mentioned that 77% of our revenues today came from an episodic – were reimbursed on an episodic basis. That number, if our plans all work as we hope, that number will continue to increase over 2009. That in and of itself will help improve gross margin.

If you look at the other issue that we've talked about, making sure that we continue to make our productivity targets, as we move our clinicians from I think that what I said on the call was 53, 56 and now 60%, as that number moves up to 65 and 70% of our clinicians paid on a per-visit basis, that will also help protect the margins. And then I think we made a couple of comments during the call about making sure that our operations were both effective and efficient, and so those two things that we want to do from an organizational structure perspective to help take a little bit of cost out. All of those things combined will help continue to move that margin in the right direction.

<Q – Pito Chickering>: Okay so, quick follow-up on that one, just looking at 2009, what is your target pay-per-visit for the pay group staff on the variable comp?

<A – Tony Strange>: Do you mean what percentage do we expect to be on a pay-per-visit basis by the end of 2009?

<Q – Pito Chickering>: Yeah.

<A – Tony Strange>: I don't think we put a hard number out there – matter of fact more specifically, we've talked about that this is a tool in which we use to help address where we have productivity issues. In places where our clinicians are fully productive today, our margins are protected, those are places where it might not make sense to implement pay-per-visit. So I don't want to arbitrarily put a number out there and go this is a number we are working toward. This is a tool, this is a wrench within our bag, that we use to address specific margin issues in specific locations.

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

<Q – John Ransom>: Hey, good morning. John, you'd mentioned that your 4Q revenue per episode was 3,040 versus 2,850 for the year. What explains this higher number in the fourth quarter versus the full year?

<A – John Potapchuk>: Well, let me start, we mentioned earlier, John, about the increasing use of therapy, that 67% of our episodes now involve therapy. And that certainly with respect to our specialty programs is a driver of that increase.

<A – Tony Strange>: Well – and the other thing, it's not just that we're doing more therapy on the same patient, matter of fact to the contrary. As we roll out these specialty programs, a lot of these specialty programs really bring us a higher level of acuity in the patients that we're serving. And those patients for example coming out of rehab settings or coming out of skilled nursing facilities are more acute patients demanding a higher level of service, and that's really what's changing the mix. That's really what's changing that revenue per episode.

<Q – John Ransom>: And so how much of the 13% growth in rev per episode is higher acuity versus just technical changes in the new 2008 version of the HHRGs?

<A – John Potapchuk>: The majority of it.

<Q – John Ransom>: Is acuity?

<A – Tony Strange>: It's really changing the mix in the kind of patients that we're taking care of.

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

<Q – Sheryl Skolnick>: – and really nice quarter. Okay, I have a question that I hope you can help me to understand. You're getting very significant demand growth, and I'm trying to understand where the demand growth is coming from. Is it – and I recognize the specialty programs are having a big effect on that – but are you – do you believe that the market is growing at 11% perhaps and you are growing at 13 because you're taking share from someone? And if so, where are you taking the share from, and how sustainable is it to continue to take that share recognizing that you could do 1,500 programs? Realistically, how many years do you think you will be able to take share before others aggregate and come in and maybe mitigate some of that growth?

<A – Tony Strange>: Sheryl, that's a very insightful question. If you look back, if you look back into 2008 the question about where – how much of the growth is just that the market is growing versus how much we've been taking market share, I think in 2008 from an admission perspective we did a pretty good job of keeping up with the market growth and protecting our market share. If you look toward the last quarter or the last 30, 40% of 2008, I think we began accelerating our ability to take market share from other people. So our outlook into '09, let's say at '08 where we – the ratio between what was taking market share versus what was keeping up with the growth, we are going to invert that relationship in 2009.

Specifically, if you looked on average on any given day in 2008 we had about 450, 460, sales resources on the street. We ended the year with a number a little bit higher than that, approaching 500. One of the things that we are targeting to do in 2009 is really invest in those sales resources and put more feet on the street and begin taking and being really more aggressive about taking market share.

<Q – Sheryl Skolnick>: Okay.

<A – Tony Strange>: Did that answer your question, Sheryl?

<Q – Sheryl Skolnick>: It sure did, and then my second question is this – and it's more, another more sort of strategic question, you've said a number of times Tony, and I want to compliment you on how well you've done solo, you've said a number of times that you are focusing on the core Home Health operations, yet you have this other related services business, which I would look at as, while improving, still lagging the much improved performance you demonstrated in '08 in the Home Health business. So, why shouldn't I assume that that means that your – or I will put it positively, what are you going to do with that other related services business and why if you want to focus on the Home Health business do you still retain that other related services business?

<A – Tony Strange>: Well, that's a fair question. And I think the answer is really the same – I've said this before, I think all of our businesses we've got to continually look at to make sure that they're strategically aligned with the mission of our company. And really any business, matter of fact it's not only any business line, it could be any branch, it could be just like the pediatric business, which was within our Home Health business already, so, it's really not related to just our segment reporting, it's really across all of our business and within – even within branches, i.e. this pediatric business that we did that we just sold. I do believe that Hospice is a core component of the Home Health industry. I think that over the next couple of years we are going to experience some change in reimbursement related to Hospice. Whether it becomes another HHRG within Home Health or not I don't know but I've – but your point is well taken. I think it's something we're constantly going to have focus on in our company is what is going to be our strategic focus and how do we continually adjust that while we are still flying the airplane.

Operator: Your next question comes from David MacDonald of SunTrust.

<Q – David MacDonald>: Hi guys, congratulations. Actually just two housekeeping questions left: one, can you guys just give us a sense in terms of timing, talking about moving corporate to Atlanta? And then secondly on the retention side, can you give us a sense of where that number is at? I know it keeps improving, but give us a sense of what the actual number is.

<A – Tony Strange>: I'll try to do both David. As it relates to moving the corporate headquarters to Atlanta, there is a technical aspect of that and that's going to be when are we going to produce, when are we going to officially change the corporate headquarters to Atlanta, and I think we are planning on doing that this proxy season when we file this year. So within the next several weeks we will be making a formal announcement and publicizing that Atlanta will be the corporate headquarters for the Company. As it relates to kind of more pragmatically, when we move things, we've already began that process, I mean we've talked about in some of our previous calls, some functions we've already moved here, some of the finance functions, some of the procurement we've already moved. We're in the – we've recently moved the marketing and sales support functions to Atlanta, we moved some additional HR functions to Atlanta and some training function to Atlanta, we are in the process of doing those as we speak. I think to give you a quantifiable end, our goal is by the end of the year 2009 that all of the corporate functions, all of the corporate functions for Gentiva will be here in Atlanta. All the executive team and corporate functions, all of them will be in Atlanta.

<Q – David MacDonald>: Okay, and then just on the retention front?

<A – Tony Strange>: On the retention side, if you look – if you look at kind of the industry, of the healthcare industry retention rates, late in 2008 our results late – mid-2008 or let's say third quarter-ish, our results got to be what I would consider to be even with the healthcare industry. I think if we ended 2008 I think I'm pleased to at least in my opinion, I believe we are beginning to see results that are better than we might see in the healthcare industry. Without getting into specifics, my goal is that from a retention standpoint there is going to be the healthcare industry in general and then there is going to be Gentiva. We are going to continue to focus in, I'd like to make Gentiva kind of the magnet status of what it means to retain employees in healthcare.

Operator: Your next question comes from Eric Gommel of Stifel Nicolaus.

<A – Tony Strange>: Eric?

Operator: Mr. Gommel, your line is open.

<Q – Eric Gommel>: My question was answered. Thanks.

<A – Tony Strange>: Operator I-

<A – John Potapchuk>: His question was answered, he said.

Operator: Your next question comes from Jeff Englander of Standard and Poor's.

<Q – Jeffrey Englander>: Good morning. Just in terms of the other side of the retention, can you talk about recruiting and given the current economic conditions what you are seeing both on the therapist and RN side? And given my presumption that that's probably a little easier now, any sense of if you're going to try to speed that up a little?

<A – Tony Strange>: Well, I think in theory your assumptions work. I would think that with the way the economy is there ought to be more clinicians staying in the work force as well as possibly coming back into the work force, that makes a lot of sense to me. We really haven't seen that yet. Now I happen to agree with you, I think that as time goes on and the economy doesn't improve we are going to see people that, that might have been considering retirement two years ago, they may say well we're going to have to stay and work another three or four years longer. So we think that that will help us in the long run, but we are not going to take our foot off the gas as it relates to our recruiting efforts. The demand for our services is growing at such a high rate that it's going to take – in order, to go back to Ms. Skolnick's question about taking market share, the company with the ability to take market share will be the company that's excelling in its recruitment and retention efforts.

<Q – Jeffrey Englander>: Just so I am clear, but you are saying you are not at this point seeing or experiencing any easier recruitment of either clinicians or RNs?

<A – Tony Strange>: I can't see a noticeable difference. We very well may have clinicians that were considering retiring that are now staying in the work force but in terms of us seeing a significant decline in our recruitment dollars, a significant decline in our training dollars that we are spending, we haven't seen that.

<Q – Jeffrey Englander>: Thanks very much.

Operator: Your next question comes from Brian Tanquilut with Jefferies and Company.

<Q – Brian Tanquilut>: Hey guys, it's actually Brian this time around but – and John just a quick question on wage inflation related to that last question on recruitment. Are you guys seeing any change in wage inflation yet for nurses?

<A – John Potapchuk>: Nothing – nothing remarkable. I mean there is certainly a market here or there that you may have to pay more, but overall when you look at our cost we're up in that 3, 3.5% area.

<Q – Brian Tanquilut>: Okay, and then corporate headquarters relocation, should we expect any expenses related to that?

<A – John Potapchuk>: Yeah, there will be certain special charges as we go through the year, I mean we are still in the process of quantifying that. I'd say right now, and I'll give a fairly wide range, somewhere in a 3 to $5 million range. But as the year goes on we will tighten up that number for you.

Operator: Your next question comes from John Ransom from Raymond James.

<Q – John Ransom>: Hey, on the corporate overhead costs John, what are you building in for 2009 for the costs and/or savings? And I have a follow-up before our aggressive operator cuts me off. Thanks.

<A – John Potapchuk>: John, I just mentioned that in terms of the special charge which isn't built into the guidance, right now the range in terms of cost would be 3 to $5 million.

<Q – John Ransom>: No I heard the special charge, what are the savings involved, net savings outside of the special charge for the year?

<A – John Potapchuk>: Yeah, to Tony's point, as there is movement throughout the year – 2009 won't be a significant savings.

<Q – John Ransom>: Okay.

<A – John Potapchuk>: From that standpoint.

<Q – John Ransom>: All right so as you look at 2010 then what's the new baseline? So let's say 2009 is a wash with the special charge, what's the kind of savings baseline for 2010?

<A – John Potapchuk>: Yeah really from a savings standpoint John it's more rent expense in the area of 1 million, $1.5 million, something like that.

<Q – John Ransom>: So there is no FTE reduction?

<A – Tony Strange>: Well, there may be FTE reductions, but we're also growing and then, we may be spending those dollars in other places.

<Q – John Ransom>: Right.

Operator: Your last question comes from Sheryl Skolnick of CRT Capital.

<Q – Sheryl Skolnick>: Thanks very much. I just need a clarification and then a follow-up. Did you say John that you only have $75 million available for acquisition?

<A – John Potapchuk>: Well based on our – on our situation today Sheryl I used the number 75 million, but keep in mind we have a $96 million credit facility and we take out what we have in letters of credit and in fact that the facility at the date of acquisition we have that $20 million available. We have roughly 30 or 35 million available on the facility. When we look at our cash position today, $70 million, roughly 69, $70, we wanted to maintain some level of cash on the balance sheet. So, I'm saying at any given time I'd want to hold on to 20, 25 million. So with that today we have 75 million but keep in mind, we do have an effective Shelf Registration out there. We're up to $300 million, and that gives us maximum flexibility with respect to debt, warrant, equity et cetera which we haven't touched at this point.

<Q – Sheryl Skolnick>: Sure, okay, that's kind of where I was going, also you're not including any incremental excess cash flow that would be committed to your term loan?

<A – John Potapchuk>: Right, we just – as we exit 2009, this is our position.

<Q – Sheryl Skolnick>: Okay, okay, I was a little bit concerned about that. And then my follow-up is can – clearly your episodic – your number of episodes is greater than your admissions, can you just and I know this is a big question to end a call with, but can you just give us a sense of what you – what's happening with your certifications within the business? Is there really, with the specialty programs do you note that your certifications with the specialty programs are significantly higher than they would be in sort of normal course of Home Health business, and what the average number of episodes is per patient that you treat, and how that's changed?

<A – Tony Strange>: Well Sheryl, let me give you – let me use one example to tell you about that. Our newest specialty, one of our newest specialties that we've launched is the Neurorehabilitation program. The typical profile of the patient that enters into that program is a post CBA patient; that patient is going to be on our service longer than a patient who is – has just had his knee replaced and is working his way back onto the golf course. And so to answer your question broadly, as we bring out more and more of these highly sophisticated specialty programs related to Senior Health, related to Neurorehabilitation, we would expect length of stay to increase specific to those patients. Our length of stay for our joint replacement for example, that number is not going to go up. So as those programs become mature I would expect that length of stay to go up. As it relates to your question for the average length of – or average episodes per patient-

<A – John Potapchuk>: Yeah Sheryl, I can give you the typical information and when you go through the math for the year we're at episode per admit of 1.4 and for the fourth quarter it was 1.44, so it hadn't changed remarkably.

Operator: And ladies and gentlemen, we have reached the allotted time for questions and answers today. I will turn the conference back over to Mr. Tony Strange for any closing remarks.

Tony Strange, Chief Executive Officer and President

Well, I would like to thank everybody again for joining today's call. We look forward to keeping you updated on continuous progress in our results throughout 2009. I hope each of you have a great day. Thanks a lot.

Operator: And ladies and gentlemen that concludes the Gentiva Health Services fourth quarter and full year 2008 earnings conference call. We appreciate your time. You may now disconnect.