

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Melissa and I will be your conference operator today. At this time, I would like to welcome everyone to the Gentiva Health Services Third 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, October 29, 2009.

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

Stephen B. Paige, Senior Vice President, General Counsel

Good morning, everyone. I am Steve Paige, General Counsel of Gentiva Health Services and this is Gentiva's third 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 to our site within the next 48 hours and will be available for the next 12 months. Following today's prepared remarks, we will open the call to questions. Please limit your initial comments to one question and one follow-up so we can accommodate as many callers as possible in the allotted time.

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

Tony Strange, Chief Executive Officer and President

Thanks, Steve and good morning everyone. Thank you for joining our third quarter call. Gentiva posted solid results for the quarter that leave us well on-track to hit our goals for the year. Today we are reaffirming our guidance for 2009 with expectations towards the higher end of our range.

So the third quarter results reflect the typical seasonality that we see during the summer months. Our teams are doing a great job of executing on our strategy and I am very proud of both their effort and the results. John and I will give further insight into the quarter in just a few minutes, but first, I would like to give you a brief update on the events in Washington.

As we talked about last quarter, Gentiva and other industry leaders have been devoting a lot of time and effort to the healthcare care reform debate, particularly to those proposals relating to home health reimbursement. The united efforts of our industry have positively influenced the thinking of

many Senators and Congressmen about the role that home care plays in providing high-quality and affordable care to our nation's growing senior population, but that fight is far from over.

As you may recall, President Obama's original budget plan included a \$34 billion reduction in home health spending over a 10-year period, which was based on MedPAC's recommendations. While no one in our industry agreed with that proposal. In the spirit of supporting healthcare reform, industry leaders, along with the National Association of Home Care, set out to develop policies that over time could save the American taxpayers significant dollars, while protecting access to care for our seniors.

The plans developed by our industry could reach savings in excess of \$34 billion over ten years, in line with and exceeding the President's original proposed cuts. The plans developed and proposed by our industry have targeted some wasteful activities in some agencies and also seek to moderate the pace at which the reductions are implemented.

It's important to note that the industry's proposed cuts do not come without consequences. The projected reductions will create hardship on providers, more significantly those without scale and resources to weather the cuts.

Going any further than our approach would not be a good outcome for our seniors. As such, the industry is absolutely united on our recommended approach and is committed to assisting the President in achieving healthcare reform, while at the same time protecting quality and access to care for the patients that we serve.

While we've made a lot of headway in helping Congress to see the merits of our industry's recommended approach, the current bills making their way through the House and the Senate are still too far reaching and run the significant risk of compromising access to care for our senior population.

As an industry, we are not inclined to support a plan that reduces reimbursement more than the President's original proposal, and we continue to press that fight. We've been working closely with members of the Senate Finance Committee and Chairman Baucus' staff on implementing the key elements of our proposals. Those efforts are reflected in the current Senate Finance Bill and we support the approach that the committee has taken. However, CBO has scored the Bill to be \$43.2 billion reduction over ten years, almost \$10 billion more than MedPAC's recommendation and the President's original budget proposal.

The industry has found several key supporters serving on the Senate Finance Committee, and has encouraged them to work with Chairman Baucus to reduce the impact to home health. Two of those supporters are Senator John Kerry from Massachusetts, and Senator Ron Wyden of Oregon. Each of whom have offered amendments that would significantly reduce the impact of the cuts proposed in the current Senate Bill. In fact, Senator Wyden's amendment called for eliminating the cuts to home health all together.

We've also received bipartisan support from other members of the Senate Finance, as well as Senators from other key committees on moderating the reductions. On October the 13, the Senate Finance Committee, passed its version of the bill by vote of 14 to nine.

Olympia Snowe, a Republican from Maine, supported the bill, but qualified her vote with concern over anticipated changes, as well as the magnitude of the reduction to home health. We believe that Senator Snowe will continue to play an important role in this debate.

On the House side, H.R.3200 currently has an across the board reduction of \$57 billion over a ten year period, almost 70% more than the President's plan. This bill is unacceptable both in its magnitude and in its approach.

Again, we've asked several key members of the Ways and Means and Energy and Commerce Committees to work with leadership to bring these reductions back in line with the original proposal. Congressman Bruce Braley, from Iowa, submitted an amendment to the Energy and Commerce Committee that not only reduces the reductions from \$57 to \$34 billion. But also provides policy and structure for the reductions to be implemented in a way that is sustainable and can be supported by our industry.

The Braley amendment has strong support from members from both the Energy and Commerce and Ways and Means. Including a letter to the House leadership, submitted by Representative John Lewis of Georgia, and co-signed by four other key Ways and Means members.

Our industry has also identified Congressman Henry Waxman, Chairman of the Energy and Commerce Committee, as someone likely to be a key player in shaping the ultimate legislation agreed to by both the House and the Senate. We are working with Chairman Waxman and his staff on our industry's proposal and the potential impact on access to care for seniors created by the current House bill.

In an effort to moderate both the Senate bill and the House bill prior to a reconciliation process, we have asked the White House for their support. We believe that it is important that the White House understands our overall support for healthcare reform, but also our grave concerns about the unintended consequences of overreaching proposals within Congress.

In addition to our efforts on the Hill, our employees are continuing their campaign back in the districts. During the August recess, Gentiva associates made personal visits with most of the Congressmen in the markets that we serve. Some took Congressmen on home visits, while others attended town hall meetings. Employees attended and coordinated fundraisers. Our employees have engaged our referral sources and patients sending tens of thousands of letters and emails.

I am extremely proud of their efforts. And, yes all of these activities can be distractions to our normal business. However, protecting the access to care for our seniors is something that our employees are passionate about, and I really appreciate their determination.

In summary, we've scored a lot of points in Washington. But until we move the proposed cuts back to a level that is in line with the original industry proposal, we are not finished. If hard work and human and financial resources and a united front can affect the outcome of a political debate, we've been well represented. With that said, I cannot speculate on the content of the final bill, nor its impact to Gentiva in 2010 and beyond.

That brings me back to Gentiva and our results for the third quarter. Gentiva had a good quarter, right in line with our expectations. Excluding CareCentrix, revenues for the quarter were approximately \$296 million, up 9% over prior year. And EBITDA was \$32 million, up 25% over prior year. The Company continues to experience double-digit growth in our core business, resulting in a strong cash flow. In addition, we continue to strengthen our balance sheet with cash in excess of \$120 million, and we've reduced our leverage ratio to under 1.8 times.

Our largest segment, Home Health produced solid results for the quarter. Home Health's episodic revenues for the quarter were \$210 million, up 17.5% over prior year. Given the seasonality in our business and the time spent on our efforts in Washington, I'm pleased with these results and I'm confident in our guidance for the full year 2009.

The following are few of our operational highlights. First, we continue to grow our specialty offerings. Ending the third quarter at 392, which puts us well within our reach of our goal of exceeding 400 before year-end. In addition, we are making good progress in the development of several new specialties and should be prepared to discuss these in 2010.

Second, we continue to expand the capacity and productivity of our clinical workforce. This quarter, we've added a net of 223 new clinicians and moved to 84% paid-on-a-per-visit basis. This will enable us to continue to grow and protect our margins as the busy season approaches.

I'll also note that the third quarter marks the 11th straight quarter in a row of reduced turnover. I am extremely proud of our branch directors and our field leadership for the progress that the Company has made in this area.

And last, we continue to make progress on strengthening our clinical delivery model by investing in additional resources and training for our staff. We are implementing a Magnet Clinical Ladder program, which recognizes and rewards clinicians for enhancing their clinical knowledge and skills.

Our other services also produced solid results for the quarter. Revenues were approximately \$35 million, a 9% increase over prior year. Hospice had another good quarter with revenues growing at 14% over last year. I am particularly proud of the work that these employees have done this year. And even though the fourth quarter is typically of slower season for hospice, I expect the progress to continue and for this group to exceed their goals for the year.

With the business performing more consistently now, we are confident in making investments in hospice that support our strategy of growing revenue by focusing on servicing the needs of our geriatric population.

On the acquisition front, we're keeping a very close watch on the market. The pipeline for smaller transactions remains robust. While the larger transactions continue to sit on the sidelines until there is more clarity on reimbursement. In the meantime, we continue to strengthen our balance sheet to make opportunistic purchases. We are well positioned to accelerate the pace of consolidation as the reimbursement environment takes shape.

In the meantime, we closed on four transactions this year, including one since our last call. I'd like to welcome the employees in El Paso, Texas, Las Cruces, New Mexico and Silver City, New Mexico to the Gentiva family.

Also during the quarter we announced the addition of three new Independent Directors to our Board. Earlier this year, we indicated that our plan was to add three new Board members, who would bring financial and governance, clinical and IT experience. The addition of Phil Lochner, Dr. Sheldon Retchin and Bob Forman collectively fit those parameters perfectly. And position the Company to focus on its strategic initiatives with a majority independent Board. I'm excited about them joining the Board and I'd like to welcome them to Gentiva. I'd also like to thank the existing Board members for their commitment and diligence in expediting this process.

With that, I'd like to turn the call over to John for some further insights into our Q3 results. John?

John R. Potapchuk, Executive Vice President and Chief Financial Officer

Thanks Tony, and good morning, everyone. As Tony has indicated, Gentiva's third quarter performance was in line with our expectations and puts us in a good position to achieve our full year 2009 financial goals. On a GAAP basis, Gentiva reported diluted earnings per share of \$0.52 for the third quarter of 2009 and \$4.07 for the third quarter of 2008.

These results included special charges of \$0.02 per diluted share in both periods, relating to restructuring and merger and acquisition activities. In addition, 2008 third quarter results included a non-recurring gain of \$3.67 per diluted share, relating to the sale of the majority ownership interest in the Company's CareCentrix unit in September of 2008.

After excluding the special charges in the prior year period non-recurring gain, third quarter 2009 adjusted net income was \$0.54 per diluted share, compared to \$0.42 per diluted share in the third quarter of 2008, an increase of over 28%.

For the first nine months of 2009, diluted EPS was \$1.70 on a GAAP basis. Adjusted net income was \$1.56 per diluted share for the first nine months of this year, versus \$1.12 for the first nine months of 2008. After excluding both, positive non-recurring items and restructuring and merger and acquisition cost.

This earnings performance is the end result of continued execution of the business strategies that we have been discussing on earnings calls for some time now. These business strategies include the following.

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

As I did on the last earnings call, I'm again going to discuss our results in the context of our execution against these strategic priorities. In covering the numbers, I first want to remind everyone that operating results for CareCentrix are included in 2008, third quarter and year-to-date results, but excluded in 2009.

Let me start with our first business strategy relating to growing revenues with a focus on serving the needs of the geriatric population. For the 2009 third quarter, net revenues were \$295.6 million, growth of over \$25 million or 9.4%, compared with the third quarter of 2008, and representing a sequential seasonal decline of about \$2.5 million from the 2009 second quarter.

However, revenue growth rates from services primarily to the geriatric population were much higher than the total revenue growth rate. For instance, Home Health episodic revenues were \$210.7 million in the 2009 third quarter, an increase of about \$31.5 million or 17.5%, compared to the prior year third quarter. Hospice revenues for the quarter were \$18.7 million, an increase of nearly 14% from the third quarter of the prior year.

Excluding Home Health episodic revenues and hospice revenues, Gentiva's remaining net revenues were about \$66 million in the 2009 third quarter, a decrease of more than \$8 million or 11% from the comparable prior year period. This decrease resulted from the first quarter 2009 sale of certain branches specializing in pediatric home health services and the Company's continuing effort to reduce services it provides at unacceptable margins.

Let's take a closer look at the major component of our revenue mix, Home Health episodic revenue. Episodic revenue is now approaching 81% of total Home Health revenues, up significantly from 75% in the 2008 third quarter. In addition, as a percentage of our Medicare Home Health revenues, revenues from specialty programs represented nearly 38% in the 2009 third quarter compared to 33% in the third quarter of last year.

I will now review some of the underlying data that is supporting our Home Health episodic revenue growth. During the third quarter there were about 46,100 admissions on an episodic basis, an increase of over 6% from the same period last year. Total episodes in the third quarter were approximately 66,700. This represented an increase from the third quarter of last year of about 8.5%, most of which related to same store growth.

Revenue per episode in the 2009 third quarter was about \$3,160, also up about 8.5% from the prior year period, and relatively flat on a sequential basis, with the revenue per episode reported in second quarter. The increase in revenue per episode from the prior year period resulted from the continuing shift in mix toward higher acuity patients, driven by the significant growth in our specialty programs.

Let's move on to our second major strategy, building the capacity and productivity of our clinical associates. During the third quarter, we continued our trend of making great strides in adding clinicians to meet the growing demand for our services. In fact, this most recent quarter represented the third consecutive quarter in which we added over 200 net new clinicians, excluding the impact of acquired businesses. This compares favorably to quarterly net clinician adds of about 150 in 2008, and less than a 100 in 2007. However, on a short-term basis, I do expect a normal slowdown in clinician head count growth during the fourth quarter holiday season.

On the productivity front, we paid close to 84% of our Home Health clinicians on a per visit basis. This is up from 56% in the year ago third quarter and 80% in the second quarter of 2009. This initiative benefits the clinicians, in that it recognizes and rewards the efforts of productive employees, as well as benefiting the Company by matching revenue with expenses, which allows for better control over gross margins.

And expanding our margins is the third strategy I want to discuss today. It is clear that our most recent quarter's costs had increased on several fronts. For example, clinician visits had increased by 9%, compared with the prior year period, to just over 19 visits per episode. And the mix of visits has shifted with a greater emphasis on higher cost discipline.

In addition, third quarter expenses reflected incremental cost for paid time off for our dedicated clinicians and training costs for new hires. However, in spite of these cost increases, EBITDA, excluding special charges, as a percentage of net revenues, increased from 8.8% in the third quarter of 2008 to 10.8% in the third quarter of 2009. About half of this 200 basis point improvement in margin can be attributed to the absence of the lower margin CareCentrix business in 2009.

The remaining increase in adjusted EBITDA margin resulted from several factors, including the following. The favorable change in our revenue mix that I've just discussed. The migration of clinicians to a pay-per-visit initiative. Better controls and discipline over various direct caregiver cost, such as mileage expenses. And our position as a large national company with the ability to leverage corporate and administrative support functions over a broader base of business.

On this last factor, let me mention a couple of other points. Our corporate expenses were \$15.3 million in the 2009 third quarter. Among the lowest quarterly totals in the past several years, due to our focus on controlling fixed overhead expenses, as well as a positive change in estimate relating to equity compensation expense.

In addition, after excluding CareCentrix from total Company results, selling, general and administrative expenses increased by 8%, while net revenues grew by 9.4% in the 2009 versus 2008 third quarter. This marks the fourth consecutive quarter in which expenses grew at a slower rate than revenues, contributing to the increase in EBITDA margin.

I'd also like to note that we reduced our effective tax rate for the third quarter. Gentiva's effective rate was 37.3% in the third quarter, somewhat below our normalized rate of about 40%. The majority of this reduction was due to the recognition of research and development tax credits. The lower effective tax rate had a positive impact of about \$0.02 per diluted share in the quarter.

Our fourth strategy relates to evaluating and closing opportunistic acquisitions. Since the beginning of 2009, Gentiva has closed four acquisitions, including the purchase of a home health business

with offices in Mexico and El Paso, Texas, which we announced last week. Most of the acquired businesses are conducted in geographic areas not previously serviced by Gentiva, within states requiring a Certificate of Need to perform home health services. We expect these businesses to make a small contribution to earnings for the remainder of this year.

I am very pleased with the progress we continue to make on our fifth major strategy of further strengthening our balance sheet. Due to our strong operating cash flow, cash and cash equivalents have grown throughout this year. In this regard, Gentiva's balance sheet had reflected cash and cash equivalents of \$69.2 million at year end 2008, \$79.6 million at March 29, 2009, \$99.5 million at the June quarter-end, and over \$120 million at the end of the third quarter.

In addition, in early October we liquidated our last auction rate security at a full \$5 million face value and have reflected that amount as short term investments on the September 27th balance sheet. Days sales outstanding, or DSOs, were 54 days at the end of September, a decrease of seven days from the end of the prior year third quarter and a decrease of three days compared to year end 2008.

After making \$14 million of required debt repayments in the first quarter, our long-term debt balance remained unchanged at \$237 million. And the average annual interest rate on this loan was below 2.5% during the third quarter and stood at 2.2% at September 27. At this point, we have no required principal payments under this term loan until March of 2013. In addition, we continue to lower our consolidated leverage ratio, which stood at under 1.8 times at September 27th of this year.

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

Now, I'll turn to the outlook. We are reaffirming our 2009 outlook of projected net revenues in a range of \$1.19 billion to \$1.21 billion, and adjusted earnings in a range of \$2.04 to \$2.10 per diluted share. However, based on our confidence in continuing to execute on our business strategies, we believe that Gentiva could achieve full year 2009 results at the higher end of the adjusted earnings range.

Adjusted EPS excludes non-recurring items and special charges relating to restructuring and merger and acquisition activities. Our outlook includes the impact of recently announced acquisitions, and also reflects 53 weeks of activity in 2009. Gentiva has a sound operating strategy that is delivering results and we are in a strong financial position. Although there is uncertainty about reimbursement rates, we are confident about the future demand for our services and the growth opportunities ahead.

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

QUESTION AND ANSWER SECTION

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

<Q – Ralph Giacobbe>: Great. Thanks. Good morning. Just a couple here. One, I guess can you talk about the sort of slight deceleration in the topline trends. Is that just a tougher comp? You also mentioned distractions in your business given sort of your Washington efforts, is that sort of playing a role in slight deceleration? And maybe can you remind us what your longer term views are in terms of topline expectations, kind of on a normalized basis excluding any type of comps?

<A – Tony Strange>: Ralph this is Tony. And that's a good question. If you go back and look historically at our business you will see year, after year, after year that the third quarter tends to be a lighter time in our industry. And I think that's what you've seen in this quarter, specifically from the topline perspective. So there is nothing unusual to us about how we predict. And although, we don't give quarterly guidance, I think on prior calls we do always talk about the third quarter tends to be a lighter quarter.

As it relates to the second half of your question about kind of the futuristic looking growth. Because of the uncertainty related to reimbursement, I don't think that I can comment on revenue growth. However, if you consider the volume growth, the average age of our patient is about 76 years old. The over 65 population is the fastest growing segment of our business. And those folks are going to rely on home care services in the future. And that demand is not going to slowdown for the next decade. So when I look into the future, when I look at 2010, and even beyond, I don't see any reason that we wouldn't expect to continue to see double-digit volume growth in our industry.

<Q – Ralph Giacobbe>: Okay. And then just on the – I guess on the margin side, you're down a little bit sequentially. I know again sort of seasonally weaker, you've talked about, for the year it's sort of averaged about 11%. I guess, would you say that's a good run rate as you start to think about 4Q and 2010? And then maybe if you can go into a little bit the cost of service line. Obviously, sequentially revenue was down a little bit, but that was going up. I mean I think you had addressed some of it, but is that really just related to the salaries and benefits given greater percentage that you guys pay on a pay-per-visit basis?

<A – John Potapchuk>: Yes, I think there is a lot there Ralph. This is John. And certainly that 11% number is reasonable with respect to the year. Certainly at this point we are not commenting at all on 2010. On a sequential basis with the margins, what happens in the third quarter and we talked before about seasonality, it's not only the topline aspect of it, but the third quarter is typically a time of vacation. So there is PTO time built into those results and some temporary help and that sort of thing. So, clearly from a gross margin standpoint, productive labor and FICA, that as a percentage of revenue is up eight tenths of a percent in the third quarter versus the second quarter. So that's the biggest driver of that sequential change in gross margin.

<A – Tony Strange>: But it's fair to say that those are similar changes that we've seen year-over-year between second and third quarter.

<A – John Potapchuk>: Similar and the fact that this year we have many more caregivers because of our hiring policy.

<Q – Ralph Giacobbe>: Okay. Great. Thank you.

<A – John Potapchuk>: Sure, Ralph.

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

<Q – Darren Lehrich>: Thanks. Good morning, everyone. I wanted to just probe a little bit on the capacity growth you've been discussing and obviously, you've made some pretty significant investments in head count. I guess, first of all, thinking about the training cost, could you frame for us maybe what some of those costs are that you're bearing on the income statement? And maybe, Tony, could you give us your thoughts about, how we should think about capacity growth over maybe the next year or so? I know what you said about fourth quarter, it will slow down a bit, but is this kind of a level that you think you will be investing in head count based on what you're seeing in the business?

<A – Tony Strange>: Well, let me try to address the first part of your question. In terms of the cost, if you go back, I think John mentioned it, now for several quarters in a row we've been adding net caregivers in and around, or in excess of 200. So the run rate that you are seeing is a normalized run rate of the cost associated with the training and the development, of hiring these new clinicians. The second part of your question is, is that going to continue? I would think that that you're kind of looking at a normal run rate. If we're going to continue to experience double-digit volume growth, we're going to have to continue to invest in that inventory in order to be able to say yes when the phone rings. So, when I look at the rates at which the dollars that we're spending today related to the training and development of new employees, I think we're going to continue to spend on those rates on a go-forward basis.

Specifically, I think you also asked, what are the kinds of things that are in that? We put a lot of emphasis on providing geriatric care to our patients, and so we do a fair amount of training related to our geriatric care courses. A fair amount of training related to our specialty protocols. We do a good bit of training related to the OASIS assessment that we do on new patients. And in addition, every single new employee that we hire has to undergo compliance training in our Company. And so, those are the kinds of things that we're spending the dollars on. And I think that the run rate that you've seen over the past year will continue to be our run rate on a go forward basis.

<Q – Darren Lehrich>: All right. And on...

<A – John Potapchuk>: Certainly Darren on those types of costs, the fact that they are increasing in the third quarter, which is the time of lower demand. That would tend to be a drag on margins. Because those costs, that category of costs year-over-year they are up over 60%, so significant effort we are putting in that area.

<Q – Darren Lehrich>: And what would you say your wage rate growth is at this point?

<A – Tony Strange>: That's not been a real big issue for us. In terms of the cost per visit or unit numbers, we've been able to hold that down pretty well. I think the economy helps us with that to some degree, but probably in that 2 to 3% range.

<Q – Darren Lehrich>: Okay. And I have a few housekeeping questions here, if I could. Number one, I think you mentioned the R&D tax credits that helped you out in the quarter a bit, how should we think about the tax rate? It has really fluctuated all year. As we're seeing that the model, does it go back into the 40, 41% zone? John, you've also been sharing gross margin numbers with us by segment, if you could please do that for us? And then finally the last housekeeping one is just the change that you referenced in the comp expense, what was the benefit to your corporate overhead or you SG&A cost? Thanks.

<A – John Potapchuk>: Okay. There is a lot there. On the tax rate, I think that as we go forward we are around that 40% mark, may be a couple of basis points below that. But as I said on the prepared remarks, in this third quarter it was 37.3. Primarily because of these R&D tax credits, but 40 and a couple of ticks under that would work. By the way, our cash payment of taxes would still be less than that. For the year somewhere around the 30% mark due to some tax amortizations, goodwill and intangibles. On the gross margins, Darren, if you look at our Home Health segment,

we were 52% and again in the prior quarter, the second quarter it was 53.5. And I talked earlier about the impact of things like PTO and that sort of thing, which bring that down seasonally in the third quarter. And, I am sorry, your final question was on...

<Q – Darren Lehrich>: On equity compensation expense.

<A – John Potapchuk>: Yes, that had – year-over-year the equity compensation expense was down about \$800,000. And that's really a phenomenon as we record that over the vesting period of stock options. We make an estimate of forfeitures, and the amount of forfeitures or cancellations of options had increased over the course of this year, so we adjusted that estimate as a result of that.

<Q – Darren Lehrich>: Okay. And your gross margin in the other segment would have...

<A – John Potapchuk>: I am sorry, Darren. Yes, this is, if I pull out – there is some depreciation of HME equipment in cost of services. So if I pull that out we went from – we were at 50.3% in the third quarter and that compared in the second quarter, we were at 49.4.

<Q – Darren Lehrich>: Very good. Thanks a lot.

<A – John Potapchuk>: Sure, Darren.

Operator: Our next question comes from Newton Juhng of BB&T.

<Q – Eugene Goldenberg>: Good morning, gentlemen. This is Eugene standing in for Newton. I actually have two quick follow-up questions. One is on your guidance. I know you guys are kind of trending towards the top end of that range. But just looking at where your guidance is, even the top end of that range implies a sequentially flat EPS quarter around \$0.54. Is there anything else in the fourth quarter that we're currently not taking into account considering Q3 is seasonally light for you guys?

<A – John Potapchuk>: Well, let me start, and then Tony could comment. We did report the \$0.54 in the third quarter, Eugene, but as I pointed out, when you take into account the lower tax rate and the impact of those forfeitures of stock options, that in total had about \$0.03 impact. So we are showing at the top end would be sequential growth in EPS in the fourth quarter. The other phenomenon, we do have 14 weeks in the fourth quarter, and that typically when we've done that, we do this once every five years, you don't get the full benefit of revenue given the holiday season, but yet we do have cost associated with payroll and fringes, which represents about 80% of our overall cost. So you're not getting a whole lot of leverage in that 14th week, and then we're still incurring costs, implementation cost on systems and that sort of thing. So that's throws a little bit of color on the fourth quarter from my end.

<A – Tony Strange>: Yeah, and Eugene, I understand your point and I think you've heard us loud and clear today that we're very confident in our outlook for 2009 and we've kind of guided people towards that higher end that really echo's your comments.

<Q – Eugene Goldenberg>: Great. Thanks for that color. And then the last question is, on the hospice ADC, we saw the revenue come up about 14%. Can you give me the hospice ADC for the quarter?

<A – John Potapchuk>: Hospice census for the quarter.

<A – Tony Strange>: We operated Q3 throughout the quarter at over 1,500 and ended the quarter north of 1,500 as well.

<A – John Potapchuk>: The ADC for the third quarter was over 1,540.

<A – Tony Strange>: Okay.

<Q – Eugene Goldenberg>: Great thanks guys.

<A – John Potapchuk>: Sure.

Operator: Our next question comes from Sheryl Skolnick of Pali Capital.

<Q – Sheryl Skolnick>: Good morning and you may not be aware, but the House just unveiled their plan with a public option and the Millionaire Tax, so if we're lucky, some of us on the call may in fact pay more taxes? But that isn't my question. Tony, if you said, I actually am going to lump a few things in, I apologize, but if you said it at the beginning of the call I missed it. Did you give an estimate of what the impact on the home health industry revenue would be for Medicare under the House version, as contemplated over the last 24 hours kind of thinking about \$500 million of cuts over – \$1 billion of cuts over 10 years? And that's question number one.

Question number two is more of a detailed question. And John, did you say – I think you said over 19 visits per episode for this year. Can you give me the specific number again and then compare it to last year, cause I checked the transcript, and I didn't see it for last year? And then can you give me a sense of why it is that the – and I suspect it's up significantly, why it is that Gentiva's business is moving more towards that 19, more towards that 20, which is the next sort of step up in reimbursement from the – in the rehab function, if you will, of the new reimbursement scheme. I'm a little bit concerned about what that means quite frankly. Whether we're not sort of seeing a bit of – I mean there's nothing illegal about it, there's nothing inappropriate about it, I mean we'll talk about focus on patients who can optimize your reimbursement and therefore optimize your performance?

And then the final question is, as we look at your completed episodes, your total episodes in the quarter versus your admissions for last year I think I calculated 1.42 is the ratio and this year 1.44 or 1.45. Is that a good proxy for recertification in the quarter and if it isn't can you walk me through how we can understand what they are?

<A – Tony Strange>: Well, Sheryl this is Tony. Good to hear from you. Maybe we ought to just set up and have lunch?

<Q – Sheryl Skolnick>: Okay.

<A – Tony Strange>: Gosh. Let me start with, what I said on the call was that the House bill is a \$57 billion reduction over a 10-year period.

<Q – Sheryl Skolnick>: Okay.

<A – Tony Strange>: I did not comment specifically what that meant to Gentiva, nor what that meant to "average home health agency." There's some variability in that, so I don't think I made a comment specifically what that could mean to Gentiva. At this point, we're just not signing up for that program.

<Q – Sheryl Skolnick>: Okay.

<A – Tony Strange>: The second question was about the 19 visits per episode. I want to make sure that I clarify that because you made a kind of intuition that that was related to therapy. And that 19 visits per episode are all visits, including skilled nursing, home health aids, social workers, on and on. Your question about what it was a year ago that number was about 17 a year ago and has increased to about 19 today.

The third or fourth part of your question was, why the increase? And you've heard both John and I talk about the continuing rolling out of our specialty programs, which really are targeted toward a higher acuity patient. So, as we expand specialties and I think John mentioned in his comments that specialties now represents 38% of our revenues. And as we continue to expand those specialty programs and develop new specialties, we will expect to see – we could expect to see the visits per episode continue to slightly tick up. That doesn't mean that that's all in therapy. We've not really commented about the mix of our business as to what could be rehab or not, so I think that addresses all of those questions.

The last component, part B of your four-part question was the total episodes and really talking about our episodes per admit, and I think that is a good way to look at the backside of re-certifications and our number has typically been about in the 1.4 to 1.5. John, do you have that number for this quarter?

<A – John Potapchuk>: Yeah. On the year-to-date it's 1.44. Third quarter is 1.45.

<A – Tony Strange>: So we've kind of stayed in line if you look at the inverse of the recertification number.

<Q – Sheryl Skolnick>: Okay. That's very helpful. And I guess, since you haven't broken down your revenues to therapy or non-therapy, I could push you and say, please do it. I'm not sure what that would get me though. I guess what I'm really asking is, how nervous should we be from an enforcement or industry oversight perspective that you and others are moving your visits up and going after more acute patients, which may – clearly is a legitimate business strategy, but going after more acute patients, and – but at the same time getting that bump up in reimbursement for the 20th visit. And from an oversight perspective, what I am worried about is, in this different administration, with a different viewpoint perhaps, looking at that as scams, rather than looking at that and saying this is just simply good business practice.

<A – Tony Strange>: Well I can't comment on the mental health of most people, so all I can do is take care of my own. I can tell you how comfortable I am. And it starts with some of the investments that we've made. I think if you go back a little over a year ago, we brought in Dr. Charlotte Weaver to head up our clinical programs. And with her hand on the throttle, I feel very comfortable that everything that we're doing is clinically appropriate. In addition to that, I think that one of the things that really separates Gentiva from our competitors is our compliance program, and John Camperlengo is the Chief Compliance Officer with Gentiva. And he's probably got 40 people that work in his area. And we inspect what we expect as it relates to compliance. And so, between the development and the implementation of our clinical protocols from Dr. Weaver's perspective, as well as the checks and balances that we get from John Camperlengo and our compliance staff, I sleep really good at night.

Operator: Our next question comes from Matthew Gillmor of Robert W. Baird.

<Q – Matthew Gillmor>: Hey guys. Calling in for Whit. Can you hear me okay?

<A – John Potapchuk>: Yes, we can.

<Q – Matthew Gillmor>: Tony, I was hoping you could maybe expand a little bit on the Board additions and just kind of discuss the expertise that was added and how that might affect your strategy going forward?

<A – Tony Strange>: Sure, I'd be happy to. First of all, I'm really excited about having these three gentlemen join our Board. I think they bring – if you remember back in the first quarter this year, we talked about adding some additional financial and governance experience, adding some clinical expertise and then also some – bringing somebody on board who has IT background. Phil Lochner

was the former Chair of the SEC, is a lawyer by training. He has been on multiple, multiple public boards, served on the audit committee of several different boards, has really built a career around corporate governance. And I think he is going to be a fine addition to our Board.

Dr. Sheldon Retchin is the Chief Executive Officer of Virginia Commonwealth University. He is a physician by training. He is also a Professor of Internal Medicine and Gerontology. He is very well published. He has written many, many articles and books and chapters of books, including textbooks. He is also known across the country as somewhat of a health policy expert as it relates to Medicare. And I'm really, really excited about him joining our Board.

The third member is Robert or we call him Bob Forman, and Bob has built a career in the technology world. Matter of fact, he is a former President of the Information Technology Association of America. He is also – he has been a founder and starter as well as the CEO of an IT company that does consulting – IT consulting for companies all across the world and international companies. So I think his skill sets will play well for looking into our technology needs on a go-forward basis.

So, all three of these gentlemen bring a lot of value to our Board. And our existing Board members hand-selected these individuals based on that experience. On top of all of those credentials, they are just all around great guys that bring an attitude of 'what can I do to help', and so, I think that we've really strengthened our Company with the addition of these guys on the Board.

<Q – Matthew Gillmor>: Okay. Great. Thank you for the details. And then I had just one quick numbers question. With the interest expense, and I know that that was just kind of bit lower sequentially, was there anything kind of to look into there?

<A – John Potapchuk>: Yeah, Matt. Comparing second quarter where interest expense was \$2.7 million, in the third quarter, it was \$2 million. I guess that's what you are referring to?

<Q – Matthew Gillmor>: Yes.

<A – John Potapchuk>: Couple of things. If you look at the title of that line, it's interest expense and other. And the other, meaning, in the second quarter, we sold an auction rate security at a discount, and we took a loss of \$550,000. That was in Q2. In addition, our interest rate on our term loan, it ticked down. It was 2.7% in the second quarter, and it's under 2.5 in the third quarter, so that was the reason.

<Q – Matthew Gillmor>: The \$2 million number is probably better run rate I guess?

<A – John Potapchuk>: Yes, yes.

<Q – Matthew Gillmor>: Okay. Thanks a lot.

<A – John Potapchuk>: Sure.

Operator: You next question comes from Justin Sughrue of Apidos Capital.

<Q – Justin Sughrue>: Yes. Hi, guys. You've obviously done a nice job of strengthening your balance sheet. I was curious in light of the acquisition strategy as well as some uncertainty regarding the reimbursement picture, is there a minimum level of cash and a maximum level of leverage that you are comfortable with?

<A – Tony Strange>: That's a fair question, Justin. Let me start with kind of looking into the acquisition pipeline. That's one of the things we look into; this uncertainty in reimbursement is that no matter which way the reimbursement outcome falls, the opportunity is to consolidate this

industry and to continue to be there and more than likely accelerate. And we have protected our balance sheet pretty carefully to be ready to be opportunistic, and even predatory, depending on the outcome of what's going on in Washington. As it relates to the comfort level, when Gentiva acquired Healthfield, we leveraged all the way up to 4.5 times. I'm not suggesting that we'd want to do that again.

But I think we're very comfortable operating in a three, 3.5 times leverage ratio. I think John mentioned it as well. We also have a shelf registration out there, about 300 million that's sitting on the sidelines. So in the event that the reimbursement outcome turns out to be more negative than we would desire, this industry is going to consolidate pretty fast. And companies that have done a really good job in protecting and building that balance sheet will be able to be predatory under that kind of scenario.

<A – John Potapchuk>: And you mentioned about minimum cash. I mean we don't – I don't think on a day-to-day basis, we need a whole lot of cash to operate, being conservatively fluid at \$20-\$25 million level, I'd feel very, very comfortable.

<A – Tony Strange>: We also have the untapped credit facility.

<A – John Potapchuk>: Right.

<A – Tony Strange>: \$50 million as well, that answer your question Justin?

<Q – Justin Sughrue>: It does, thank you very much.

<A – Tony Strange>: Sure.

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

Tony Strange, Chief Executive Officer and President

Well, I'd like to thank you again for joining our call today. And I'd also like to give a special thanks to all the employees of Gentiva. I'm really proud of your work and I'm proud of how active you've been in this debate in Washington. I hope everybody has a good day and we'll talk to you soon.

Operator: Thank you for participating in today's conference call. You may now disconnect.

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