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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Gentiva third-quarter earnings conference call. (OPERATOR INSTRUCTIONS). At this time, I would like to turn the conference over to Mary Morrisey-Gabriel. Please go ahead.

Mary Morrisey-Gabriel - *Gentiva Health Services - SVP & Chief Sales Officer*

Thanks very much and good morning. Thank you for joining us this morning. I am Mary Morrisey-Gabriel, Senior Vice President and Chief Sales Officer here at Gentiva Health Services. This is Gentiva's third-quarter 2004 earnings call. We hope that each of you have had the chance to review the Company's third-quarter earnings report which we released after close of market yesterday. In a moment, I will turn the call over to our Company's Chief Executive Officer, Ron Malone, for remarks on Gentiva's performance during the third quarter and to John Potapchuk, our Chief Financial Officer, for a closer look at our financial results and outlook. Also joining us for the call on the question-and-answer period are Al Perry, Gentiva's President and Chief Operating Officer, and other key executives.

Let me remind participants on this morning's call the comments made by Gentiva executives and associates other than historical information should be considered forward-looking and are subject to various risk factors and uncertainties. For example, our strategies and operations involve risks of competition, changing market conditions, change in laws and regulations affecting our industry, and numerous other factors discussed in our third-quarter earnings release and in our filings with the Securities and Exchange Commission. Accordingly actual results may differ materially from those anticipated in any forward-looking projections or comments on this call today. Please refer to the forward-looking statements in our news release issued last evening, as well as similar language in our most recent 10-K.

We are also operating under the Securities and Exchange Commission's Regulation FD. Our call this morning and comments within it will be consistent with our obligations under these SEC regulations. As such, we strongly encourage participants on this call with questions to present them during today's question-and-answer period. Because under Regulation FD, we have certain regulations on comments that can be made in individual inquiries. We are also mindful of Securities and Exchange Commission Regulation G. Regulation G requires public companies that disclose or release non-GAAP financial measure to include in that release or disclosure a presentation of the most directly comparable GAAP financial measure and reconciliation of the disclosed non-GAAP financial measure to the most directly comparable GAAP financial measure. Because of this, we will not discuss non-GAAP financial measures on this call other than what is set forth in our earnings release.

I would also like to mention that Gentiva continues to have a policy of being open and responsive to inquiries related to our Company. In the Investor Relations section of our Company Web site, Gentiva.com, you will find our press releases, our investor presentation and many of our SEC filings. In accordance with Regulation G, a transcript of this call will be posted to the Web site and available for the next 12 months. Additionally you may access our earnings call replay for the next 30 days.

We appreciate your continued interest in Gentiva Health Services. Let me now turn the call over to Gentiva's Chief

Executive Officer Ron Malone for comments on the Company's third-quarter 2004 performance.

Ron Malone - *Gentiva Health Services - CEO*

Thanks, Mary. Good morning, everyone, and thanks for joining us. The third quarter was highlighted once again by double-digit growth in Medicare, as well as growth in commercial insurance excluding CIGNA revenues. As we have discussed in prior calls, the third quarter is traditionally the slowest of the year for us. However, the quarter was also marked by the unexpected -- four hurricanes that hit the Southeast beginning in mid-August. The impact of these storms had an adverse effect on our third-quarter performance and we are anticipating it could have a residual impact in the fourth quarter. As a result, we have tempered our 2004 revenue outlook, although our earnings outlook remains unchanged.

At the same time, I'm pleased to report that in dealing with the hurricanes our disaster recovery plans worked well and the response of our people was nothing short of extraordinary. I will talk more about their response in a moment, but first here are some of the highlights of the quarter.

Our net income as reported was $4.4 million or 17 cents per diluted share compared to $4.5 million or 17 cents per diluted share in the third quarter 2003. As we explained in the news release, the 2004 figure is based on a normalized annual effective tax rate, while the 2003 number is based on a lower effective tax rate of 7.3 percent as we have discussed on previous calls.

Net revenues as reported were $198.1 million, about even with the 199.7 million reported for the same period last year. Revenues were essentially flat for the quarter due to the elements that we discussed in the news release. The anticipated lower revenues from CIGNA, lower revenues in certain lower margin Medicaid and local government programs, and the impact of the storms.

The CIGNA revenue decline is due to its lower membership, as well as lower revenues from our streamlining of the HME delivery model to reduce costs for CIGNA. However, it is also worth noting that non-CIGNA revenues for the third quarter increased 4.7 percent.

During the quarter, we were notified by the PRRB that we were receiving a total of $1.4 million to settle our appeal of the 1998 Medicare cost reports. Consistent with our accounting policies, we have included the $1.1 million received in our third-quarter results, and we expect to receive the balance in the fourth quarter and report it in that period.

Gross margins for the third quarter were up about 3.4 percentage points compared to the third quarter of 2003. We reported a 16 percent increase in pretax income, excluding the special item, and we had a nice improvement in cash flow to over $11 million.

We repurchased over a million shares of our stock and still ended the quarter with more than $106 million in cash, cash equivalents, restricted cash and short-term investments. We have moved forward with implementation of our five-year CareCentrix contract with TriWest Healthcare alliance that was announced in late May.

We have continued to expand our specialty programs to add incremental revenues and set ourselves apart from others in the industry. And as we indicated in our earnings release, there were several items affecting the comparisons between the third-quarter and the nine-month results for 2004 and 2003. That is why the release includes information on net income as adjusted. John will discuss that and a number of other financial items in greater detail.

Our Medicare revenues remained strong, increasing 16.5 percent in the quarter after special items are excluded. This is our fifth consecutive quarter of double-digit Medicare growth. The increase was due to admissions rising about 8.5 percent, higher Medicare reimbursements compared to last year, and a number of operational and clinical process enhancements that we have talked about on prior calls. Without the storms, we believe that Medicare admissions would have increased at or above the rates we reported last quarter.

The Medicare reimbursement environment remains relatively stable with rates pretty much set for 2005. On October 15 this Centers for Medicare and Medicaid Services announced a 2.3 percent increase in homecare reimbursements for 2005. On the same day, CMS also announced a favorable change in the formula for receiving outlier payments so that a greater number of episodes will qualify for higher reimbursement. For those of you who may not know, outliers are patient cases which the anticipated cost threshold established by Medicare.

The 5 percent rural add-on expires at the end of March and legislation for its renewal has been introduced in Congress.

Over 40 percent of our third-quarter Medicare revenue increase came from continued growth in our specialty programs, which are now offered in more than 100 locations across the country. These include, Orthopedic Services, our oldest and largest program; Safe Strides for people with balance issues, and cardiopulmonary services, our newest program that is now up and running in several locations.

Turning to our Commercial Insurance payer, we saw revenues from our Commercial Insurance and other categories decrease 6.3 percent in the third quarter of 2004 versus the same period of 2003. The decline came from the reduced CIGNA revenues that I mentioned earlier. However, we also achieved an increase in non-CIGNA Commercial Insurance revenues. This partially offset the decrease in CIGNA business during the quarter.

CIGNA represented approximately 30 percent of Gentiva's total net revenues in the third quarter of 2004. This compares to about 34 percent in the third quarter of last year. Last quarter we announced the TriWest agreement which demonstrates how the CareCentrix model can expand its products and services to care for a large and geographically dispersed military population and their families. The implementation of this contract is going well, which indicates to us that CareCentrix can provide solutions beyond its traditional commercial base.

Turning to our third payer group, Medicaid and other government, revenues in this category declined by 6.6 percent in the third quarter of 2004 versus the same period last year. As you know, we have been selective with Medicaid business by reducing participation in certain low margin hourly Medicaid and local programs. However, we have increased admissions for intermittent visits that require skilled nursing and therapy. Furthermore, we believe that states will make more efficient use of their reduced budgets by turning more and more to homecare and away from less efficient institutional services.

As we increase our branch business, the ability to create capacity remains central to our growth. We're taking steps to meet that challenge. While we're competing for more business, we are also competing for more caregivers in a tight labor market, and that is why we have pushed ahead with the recruitment of full-time caregivers and while we have 29 percent more of those folks versus the same period a year earlier.

Our emphasis on hiring full-time caregivers is turning out to be a good long-term investment. Once they reach their full productivity, they become solid contributors to our business, and their turnover is well below that of caregivers paid on a per visit basis. That's why the recruitment of full-time caregivers remains an important part of our strategy. But at the same time we are encouraging hourly and permanent caregivers to increase their commitment to Gentiva by offering them incentives to move closer to full-time work.

Before I end my remarks, I would like to say more about our performance during the recent hurricanes. It was a very difficult time for everyone in Florida, including caregivers. Many hospitals were damaged and temporarily closed, and some facilities are not expected to get back to normal for several months. Several Gentiva offices were also temporarily closed, but we moved to other quarters and transferred calls to an intake center located in upstate New York. We reopened for business and our people were out in the community caring for patients within 24 hours after each storm's passing.

Referral sources and physicians knew we were ready to take patients discharged from the affected institutions. While Gentiva's own operations are recovering from the storms, it may take some time for the entire region to get back to normal, especially in certain areas of Florida. I should also add that Gentiva associates from all over the country have contributed thousands of dollars in relief funds to help their colleagues who suffered significant losses from these storms.

Now I would like to turn the call over to our CFO John Potapchuk for a discussion of our financial performance.

John Potapchuk - *Gentiva Health Services - CFO*

Thanks, Ron, and welcome to everyone. Before I discuss Gentiva's third-quarter and year-to-date financial results and our outlook in more detail, I would like to review a number of items that affect our presentation format and the comparability of our statements of income for the 2004 and 2003 periods.

But first is the settlement of an appeal to the U.S. Provider Reimbursement Review Board, or PRRB, relating to the methodology used for determining Medicare reimbursements in our 1998 cost reports. During the third quarter of 2004, we received approximately 1.1 million of the total settlement of 1.4 million, and this amount was recorded as net revenues and pretax income in the current quarter. We expect to receive and report the balance of this settlement in the fourth quarter.

You may recall that in the first quarter of 2004 we received approximately 9 million from the settlement of the 1997 cost report appeal, and this amount is included in net revenues and pretax income for the first nine months of 2004. The agreed-upon methodology will also be applied to cost reports covering the years 1999 and 2000. Cost reports for those two years are not expected to be reopened and completed before 2005. It is likely that future recoveries of funds relating to the appeals for either these years will be significantly less than the 1997 settlement but greater than the 1998 settlement.

This second item relates to a $1 million revenue adjustment representing an estimated repayment to Medicare. And the third item is a pretax gain of over $900,000 relating to the sale of a 19.9 percent interest in a Canada-based company. Both of these items occurred earlier this year and are reflected in our 2004 nine-month results. These items are discussed in more detail in the earnings release.

And the fourth item affecting comparability involves the tax rates for the third quarter and first nine months of 2003, which were 7.3 percent and 8.6 percent respectively. These rates were substantially lower than the statutory rate due to the reversal of a portion of the valuation allowance relating to the realization of tax benefits associated with net operating loss carryforwards and other net deferred tax assets. By comparison our 2004 annual effective tax rate for reporting purposes is projected to be 38.2 percent. This rate is reflected in our year-to-date results and is slightly below the 39 percent rate used in the first half of the year. Because of these four items, we also disclosed net income as adjusted in our earnings release and reconciled such amounts to the reported GAAP presentation. We believe the as adjusted presentation is useful to investors since it requests the Company's operating performance in a consistent manner, excluding the special items that I just mentioned and using a tax rate that is more reflective of the particular period's activities.

Turning to revenue. As Ron indicated, we continue to achieve double-digit Medicare revenue growth, represented by $8.3 million of incremental revenues in the 2004 third quarter. The largest contribution came from growth in specialty services, followed by Medicare reimbursement rate changes, volume growth in traditional Medicare business, and operational and clinical process enhancements. Although revenues from Medicaid and local government payers declined by 2.7 million or 6.6 percent in the third quarter due to anticipated reductions in low margin hourly business in selected states, we did recognize increased revenues from skilled visits during the quarter.

In the Commercial Insurance and other category, the CIGNA revenue decline has been caused by two factors. One, a previously announced reduction in CIGNA's enrolled members in 2004, and lower revenues and related costs resulting from improvements in the delivery model of certain of our products and services. We continue to balance our payer mix by focusing on those sectors with the greatest opportunities for growth.

Excluding the special items, our payer mix and the changes in the payer mix between the 2003 and 2004 periods are as follows. Medicare represented 26.1 percent of our total net revenues in the first nine months of fiscal 2004, up more than 5 percentage points from the first nine months of 2003. Medicaid and local government payers represented 19.0 percent of total net revenues, a decrease of more than 1.5 percentage points from the first nine months of last year. And the Commercial Insurance and other payer category represented 54.9 percent of total net revenues, a decrease of nearly 3.5 percentage points from the first nine months of 2003.

Let me make a couple of final points on revenue that may help you to better understand the contributions of CareCentrix and CIGNA. First, the CareCentrix unit accounted for 40 percent of our total nine-month revenues in 2004. And second, the CIGNA revenues are included within CareCentrix and represented about 31 percent of Gentiva's total nine-month revenues this year, down from 36 percent for the first nine months of 2003.

Turning to other financial measures. Our gross profit in the third quarter of 2004 was approximately 6.3 million higher than the corresponding period of 2003. As a percentage of net revenues, gross profit margins increased 3.4 percentage points from 34.7 percent in the third quarter of 2003 to just over 38.1 percent in the third quarter of 2004.

We had two major drivers behind gross margin improvement for the quarter. The first was CareCentrix as we benefited from the reconfiguration of our HME provider network and from the addition of new contracts. And the second was a favorable change in our business mix as our increased Medicare business more than offset the anticipated revenue lost from reduced participation in certain low margin hourly Medicaid and local government programs.

To a lesser extent we also had contributions to gross margin improvement from the special item involving the 1998 Medicare cost reports settlement, positive Medicare reimbursement changes, and lower workers compensation expense.

Selling, general and administrative expenses of 67.2 million for the third quarter of 2004 increased 4.5 million compared with the third quarter of 2003, but were lower than the second quarter of 2004. About one-half of the third quarter year-over-year increase related to field operating and administrative costs to service incremental Medicare revenues, including revenues from our specialty programs. The remaining SG&A expense increases resulted from higher selling and clinical care coordination expenses, as well as incremental costs associated with the implementation of Sarbanes-Oxley requirements, ongoing IP initiatives, field development training, and costs associated with the reconfiguration of the CareCentrix HME provider network.

Our pretax income as a percentage of net revenues was 3.4 percent in the third quarter of 2004, including about .5 percent relating to the PRRB settlement. This compares to 2.5 percent in the third quarter of 2003. For the first nine months of 2004, the pretax margin excluding all special items was 3.5 percent versus 2.7 percent for the comparable period of 2003.

We are very pleased with the strength of the Company's balance sheet. Net Accounts Receivable declined by 6.4 million from the end of the second quarter, and our days sales outstanding or DSO at September 26, 2004 was 59 days, an increase of one day from the end of the second quarter but flat with year-end 2003. At the end of the third quarter, cash, cash items and short-term investments were 106.5 million.

As we indicated in the news release, we have repurchased over a million shares of common stock in the third quarter of 2004. This was done at a cost of 15.5 million or an average cost per share of $15.28. From May 2003 through the first nine months of this year, we have repurchased nearly 3.5 million shares in the open market at a cost of over $44 million or an average cost of about $12.87 per share. As of the end of the third quarter, the Company had remaining authorization to repurchase slightly more than 1 million shares of its common stock.

Now I would like to turn to our outlook for 2004 and preliminary outlook for 2005. We are tempering our revenue outlook excluding special items to a range of 828 million to 835 million for 2004 compared with the prior range of 840 million to 850 million. However, we're reaffirming our 2004 full-year earnings outlook excluding special items, which remains in the range of 64 cents to 67 cents per diluted share.

We have been able to maintain this earnings outlook despite anticipated lower revenue by improving our operating margins, lowering our tax rate for the year by almost 1 percentage point, and reducing our estimate of diluted shares from about 26.8 million to 26.4 million as a result of our stock repurchase program. On an as reported basis, our earnings outlook ranges from 89 cents to 92 cents per diluted share for the full-year 2004.

At this time, we are providing a preliminary outlook for the 2005 fiscal year that anticipates full-year net revenues of 870 million to 890 million, and net income in the range of 78 cents to 85 cents per diluted share based on estimated diluted shares of 26.4 million as compared to the 2004 outlook of 64 cents to 67 cents.

The 2005 outlook captures 52 weeks of activity as compared to the 53-week period in 2004, and it excludes the impact of any potential acquisitions, special items, and the implementation of new accounting rules related to equity-based compensation. I want to stress that this is a preliminary outlook. As the fourth quarter progresses, we will be reviewing our plans for 2005 and providing you with an update on our next call.

We expect to achieve our 2005 results through a well executed set of strategies from high margin opportunities to the implementation of advanced technologies.

Now that I've completed our financial discussion, I would like to turn the call back to Ron to discuss some of those 2005 initiatives. Ron?

Ron Malone - *Gentiva Health Services - CEO*

Thanks, John. As you indicated, 2005 will be another busy year for us. Here are a few things we will be working on.

First, we expect to maintain a strong focus on growing our Medicare business. We are continuing to execute a multiyear strategy of increasing participation in Medicare and we expect that to continue. At the same time, we have been limiting our Medicaid participation to plans that offer reasonable margins for providers and match our clinical focus in a given market.

Second, we plan to continue the expansion of our specialty programs by growing our orthopedic programs; expanding Safe Strides, which is now in full launch, and proceeding with the launch phase of our cardiopulmonary program. We believe specialty services can be an important revenue driver, a key differentiator in the marketplace, and a force behind the delivery of even better clinical care.

Third, we will continue our efforts to expand CareCentrix business with both current and new customers. We believe there is good interest for the solutions offered by CareCentrix as payers look for ways to streamline service delivery and make more informed purchasing decisions. And as we continue with the implementation of the TriWest agreement, we will look for additional opportunities to expand the reach of CareCentrix to other purchasers of homecare services.

We're going to focus on gaining operational improvements driven by prudent investments in technology. This year, for example, we brought in a new CIO who has led the effort to evaluate our current technology platforms and our plans to create foundational capabilities so that we can move forward with new initiatives. Next year we will continue work on four important technology projects which we believe will make us a more efficient and competitive Company.

We will continue our work on recruitment and retention. We must have capacity to reach our growth objectives, and so we are putting special emphasis on hiring and retaining field clinicians in our branch business, increasing the commitment of caregivers to Gentiva and creating an environment in which all caregivers will want to work for us and no one else.

For 2005 we have one other important objective. We intend to continue to build a high-performance culture at Gentiva, one where metrics reinforce accountability, where good practices in clinical care governance and compliance underscore our responsibilities, where growth and learning are expected and where continuous improvement is the focus. We will work hard to improve the very fabric of Gentiva so that we are a more innovative, competitive and compelling company for all those who place their trust with us. We intend to stay on top, we intend to grow, and we intend to improve our sales and our performance everyday.

Those are our key initiatives for next year. We have much to do in the months ahead, but we believe 2005 will be another solid year of accomplishment for Gentiva, including solid financial performance. We're excited about the prospects, and with that, we will take your questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Matthew Ripperger. Smith Barney.

Matthew Ripperger - *Smith Barney - Analyst*

Thanks very much. A couple of questions. First, I just wanted to clarify what you said about Medicare growth in the quarter, excluding the hurricanes. Can you just clarify, excluding the hurricane, you said you would have grown net Medicare in line or above the last quarter? I just wanted to clarify is that in line with the last quarter's year-over-year Medicare growth or in line with the last quarter's Medicare revenue?

John Potapchuk - *Gentiva Health Services - CFO*

What I said was in line with last quarter's Medicare revenue growth rate.

Matthew Ripperger - *Smith Barney - Analyst*

Okay. So basically last quarter you had 28 percent year-over-year Medicare growth. This year it was 16. So the hurricane impacted your year-over-year comps by about 12 percent?

Ron Malone - *Gentiva Health Services - CEO*

We had 8.5 percent admissions growth, and last quarter I believe it was (multiple speakers) 13, I think we said -- what my statement said is we believe we would have grown Medicare at or above that rate without the storms.

John Potapchuk - *Gentiva Health Services - CFO*

That is correct.

Matthew Ripperger - *Smith Barney - Analyst*

At or above the Medicare admission rate?

Ron Malone - *Gentiva Health Services - CEO*

That's right. 13 percent (multiple speakers)

Matthew Ripperger - *Smith Barney - Analyst*

Should that be viewed as pretty comparable to your overall Medicare revenue growth in the last quarter?

John Potapchuk - *Gentiva Health Services - CFO*

No. The admission growth last quarter -- last quarter meaning the second quarter -- the admission growth was 13 percent, the revenue growth was 28 percent.

Ron Malone - *Gentiva Health Services - CEO*

So this --

Matthew Ripperger - *Smith Barney - Analyst*

Okay. So if you assume that you grew revenues comparable to what you did last quarter, then it would have added about 5 million or so in incremental revenue in the quarter?

John Potapchuk - *Gentiva Health Services - CFO*

Yes. And just to clarify, we're talking about admission rates and Medicare revenue rates. The reconciliation, if you will, of the actual reimbursement rate is higher this year than it was last year. The fact that close to half of our growth is in the specialty programs that commands on balance a higher rate per episode than the normal Medicare. And then we had these various clinical and process improvements, and all of that contributes to in essence reconciling from the change in admission to the change in revenue.

Matthew Ripperger - *Smith Barney - Analyst*

I understand. But the year-over-year comparison should be comparable second quarter this year to second quarter --?

John Potapchuk - *Gentiva Health Services - CFO*

Yes, that is fair.

Matthew Ripperger - *Smith Barney - Analyst*

Okay. The second question I had is in terms of your specific guidance for the fourth quarter, you said that the revenue guidance excludes special onetime items. So that would imply revenues for the fourth quarter in the range of 217 to 224, which would imply about 8 percent growth year-over-year. I wanted to just see if you could just help walk us through the components to get from third quarter to the fourth quarter, and then secondly I wanted to see if you could -- you commented that your fourth-quarter guidance, even though it's very robust versus the third quarter, is still reflecting a muted assumption related to Florida. So I just wanted to see if you could help quantify how much of a muted response is included in your guidance right now?

John Potapchuk - *Gentiva Health Services - CFO*

Well let me try and answer in a couple of different ways. One is if you recall on our last call we had indicated that our non-CIGNA revenue we projected that to grow between 9 and 12 percent for the year. I think we are staying with that, but I think with the adjustment to the overall total year revenue number it is fair to say that we now think that would be in the lower end of that range as opposed to the upper end of the range. That has not affected some $12 to $15 million.

The other point I guess I will raise is excluding the special item in the third quarter our revenue was $197 million. If you project that in the fourth quarter without any growth at all, given the fact that we have 14 weeks, that would get you to a number in the 210 to 212 range, but certainly activity picks up in the fourth quarter traditionally. We have said in the past that the third quarter is our lowest revenue quarter. So hopefully that gives you some feel for where we are going there.

Matthew Ripperger - *Smith Barney - Analyst*

Can you comment in terms of the Florida assumptions for the fourth quarter? How much is that below what you would normally do in a typical year?

John Potapchuk - *Gentiva Health Services - CFO*

I think that the lower -- it's fair to say that the change in our revenue estimate again in the range of $12 to $15 million, the majority of that really in fact relates to Florida.

Matthew Ripperger - *Smith Barney - Analyst*

Right. But there is a Florida impact in the fourth-quarter assumption and the guidance as well, isn't there?

John Potapchuk - *Gentiva Health Services - CFO*

And that is built into the change of $12 to $15 million.

Matthew Ripperger - *Smith Barney - Analyst*

Okay. The last question I had is, in your guidance for next year, for '05, you said basically that you are projecting shares in the 26.4 million range and you built in no acquisitions. So given your strong free cash flow, should we just assume that you continue to build your cash position and finish next year with about 130 to 140 million in cash and no debt?

John Potapchuk - *Gentiva Health Services - CFO*

Well, that is one of the things that when we said we would be refining some of these numbers in the fourth quarter, I think I would prefer to comment on that on the next call. But your basic assumption about positive cash flow certainly is right in line.

Matthew Ripperger - *Smith Barney - Analyst*

But I want to clarify your guidance right now assumes no share repurchases, nor any acquisitions in '05?

Ron Malone - *Gentiva Health Services - CEO*

No, I think it is fair to say that we will expect to continue the share repurchase program. As I mentioned, we do have the authorization for a million shares out there.

I think in looking at the estimate of the share count, there are a couple of different factors or assumptions that go into that. One is how many options might be exercised next year? Two, how many shares might be repurchased? And three, using the treasury stock method for dilutive options what they stock price is going to be.

So we have finished the third quarter at 26.0 shares, 26.0 million shares, anticipate the fourth quarter to be slightly below that, but then in your modeling I think on a quarter by quarter basis into 2005, you could see a slight creep-up, say a couple of hundred thousand shares a quarter, and when your average that out, you get to the 26.4 million, which is really what we were going to finish this year.

Operator

Tony Campbell. Knott Partners.

Tony Campbell - *Knott Partners - Analyst*

I have two questions. Can you just update us on those new specialty positions that you're running and what you think the outlook is?

And then the second question would be, why cannot you guys get the DSOs down at 50 days? Is that impossible? What sort of change in the metrics would that be?

Ron Malone - *Gentiva Health Services - CEO*

I think on the specialty programs we have -- I think when we show you the growth rate comment, we have said that the growth rate has been quite robust in those areas. We believe that as I mentioned in the call earlier in my comments serves several different purposes. We think it differentiates us. We think long-term we give better clinical care.

We also think that one important element of these specialty services brings a very very clear sale focus in the local market where we can target the particular need and we can go into it for the needs of particular groups of physicians and demonstrate to them our ability to better handle their patients and to better interface with their (inaudible). So it is really to me a win-win-win all the way around, and thus far we have seen where we have put in one of these specialty offerings in a local market, we get a good response from the local physician community and we are starting to accelerate -- we start to accelerate our growth rate in that market.

We now have about roughly 90 orthopedic programs. We expect to grow that next year. One of the things we have also seen is those programs as you would anticipate have a lifecycle, and we have a number of programs that are more into what I consider maybe the second phase of growth. We expect to continue to develop those next year because the more mature programs are operating at revenue levels significantly higher than the less mature programs.

Safe Strides, we have seen thus far good response from those programs. The cardiopulmonary program, we are just beginning to pull off now. We have that in several offices. But we have seen enough that we believe that we're confident that that is a good program and expect to go-ahead and launch it.

As it relates to DSO, you asked the same question I asked John all the time. I think getting it down as we inched towards 50 days, we will become certainly incrementally more difficult. But we believe -- we believe a couple of things. We believe that we're already on pretty solid ground given the improvement over 80 some-odd days a couple of years ago, but we still have further to go. As we implement more technology and streamline our processes, we believe even the introduction of new technologies like point-of-care could help drive that DSO down because we are getting the data and the system earlier, and we are getting it in the system more accurately than could ever be accomplished through normal data entry. So over the long run be assured that our goal is to get that down because every day is important to us.

John Potapchuk - *Gentiva Health Services - CFO*

In the long run, I absolutely agree. We have opportunities there, and just to comment that when you look at our situation today, I think it is positive.

We're generating, as Ron mentioned, over $11 million of operating cash flow this quarter. But with that, as we implement new contracts, as we get more involved with dealing with patient pay (technical difficulty) that I think we do a real good job on, we are working through some of those opportunities to lower the DSO.

Tony Campbell - *Knott Partners - Analyst*

Well, good luck.

Operator

Sheryl Skolnick. Fulcrum.

Sheryl Skolnick - *Fulcrum - Analyst*

Good morning and thanks for letting us ask two this time. Nice job through a difficult period. A couple of questions if I may. Can you give us the basic outline of your thought process with respect to your '05 guidance of the difference between the 78 cent bottom of the range and the 85 cent top of the range? We know it is not acquisitions. So what in essence has to happen for you instead of doing the bottom end of the range for you to do the top?

John Potapchuk - *Gentiva Health Services - CFO*

That is a very thoughtful question. I think if you look at the strategic goals that I outlined at the end of my comments, I think a great deal of where we might operate within this preliminary outlook will be to the degree that we are successful in executing on those key goals. You know, the faster we're able to drive or the higher we are able to drive our Medicare growth rate, our penetration of markets with our specialty programs, the expansion of new CareCentrix, and even the implementation of the TriWest agreement.

We are pleased with where that is, and we are right where we thought we would be. We expect to have the basic implementation accomplished by year-end, but basic implementation does not mean of absorption of all the available revenue. Often it takes two, three or maybe 10 years to fully reach to potential. We are hopeful it's not 10, but to the extent that we can continue to bring new business into CareCentrix and to grow the businesses we have, I think (inaudible) might like to add more specifically, but I think it's really around our execution and our ability to create greater capacity with caregivers.

We think there is no more fundamental differentiator in the market than our ability to say yes, we can accept this referral. We can admit the patient. So we're putting a tremendous amount of effort around the recruitment and retention of these caregivers, including the full timers I mentioned. So I think it is really at this point the early outlook is really about execution.

Sheryl Skolnick - *Fulcrum - Analyst*

It sounds like timing, too. (technical difficulty)--. So that is helpful. I need to go back to the understanding of the lingering effects of Florida because a priori it makes sense that if a home is not there, the homecare does not happen. Okay? So we understand it.

But I guess what I asking here is, given that an episode of care for Medicare occurs over a period of time, say 60 days, on average right, how many --? Right?

Ron Malone - *Gentiva Health Services - CEO*

The episode is 60 days. The care is generally delivered in perhaps half that time. (multiple speakers)

Sheryl Skolnick - *Fulcrum - Analyst*

Okay. But if an admission does not take place in the hospital, then the discharge to homecare does not happen either? Or if the patient is not in their home and they are in a nursing facility, then the admission does not happen either to the episode. So is that why it is very clear that you will have lingering effects in the fourth quarter?

Ron Malone - *Gentiva Health Services - CEO*

Yes, and really the revenue --

John Potapchuk - *Gentiva Health Services - CFO*

I mean some of the carryover from the direct period of time of the hurricane because as you pointed out (multiple speakers) at the end of the quarter carries over into (multiple speakers) and then the lingering effect of those (multiple speakers).

Ron Malone - *Gentiva Health Services - CEO*

It would be also beyond Medicare. It would affect all patient groups.

Sheryl Skolnick - *Fulcrum - Analyst*

Sure. But Medicare is easy enough because we know how long an episode of care is?

Ron Malone - *Gentiva Health Services - CEO*

Sure.

Sheryl Skolnick - *Fulcrum - Analyst*

Okay. So we can time it. Alright. So when I go back and I look at what I thought you were going to do in Medicare prior to the hurricane, it would have been incremental revenue of something originally something along the lines of $9 million more in Medicare than you did last year. And excluding the additional 1.1 million that you got from the settlement, it looks like you did something along the lines of 7 million -- the incremental Medicare revenue in the quarter was 7.2 million. That is 16.5 percent. That is kind of sort of where I was coming at there.

So going back to your answer to Matt because I am still confused here, are you basically saying that that last period on the Medicare side of the business, that your units would have been back up at the 13 percent growth, but because your revenue is higher today per unit than it was in the second quarter, that the growth in revenues could have been higher than the 28 percent?

John Potapchuk - *Gentiva Health Services - CFO*

I don't think we said that.

Sheryl Skolnick - *Fulcrum - Analyst*

No, I don't, but we are trying -- we are all trying to figure out just how you go sequentially from 197 million to somewhere in the neighborhood of 210 to 220 million or maybe a little more for the fourth quarter, even recognizing the extra week of revenue? Or is it just simply the extra week of revenue that is doing it and we should stop worrying about the Medicare?

Ron Malone - *Gentiva Health Services - CEO*

Well, it is an extra week of revenue and it is the fact that the fourth quarter is a significantly different quarter than that typical dry third quarter where we see just demand is at its (multiple speakers) for the rest of the year. (multiple speakers)

Sheryl Skolnick - *Fulcrum - Analyst*

Because I guess what I am saying, is you are only losing $1.5 million, $2 million of Medicare. Obviously you lost a little on the managed care side of Medicare revenues. That's a lot to make up from 197 to you know 210, say, before the extra week.

John Potapchuk - *Gentiva Health Services - CFO*

Yes, yes. Maybe to give you another sense, we had the extra week in the fourth quarter, and then if you go back to 2003 and you focused on Medicare, 2003 our third-quarter Medicare revenue number was 44 million and our fourth quarter was (multiple speakers)

Sheryl Skolnick - *Fulcrum - Analyst*

50 million. Right.

John Potapchuk - *Gentiva Health Services - CFO*

And there is again just a change in the seasonality that's going to swing that up.

Sheryl Skolnick - *Fulcrum - Analyst*

Okay. Alright. Okay. You passed the test. Thank you very much.

Operator

Art Henderson. Jefferies & Co.

Art Henderson - *Jefferies & Co. - Analyst*

Going back to what Matt asked earlier, in your share account for '05, have you effectively used up the remaining -- did you say it was $1 million -- you know share authorization you have left?

John Potapchuk - *Gentiva Health Services - CFO*

A little over a million.

Ron Malone - *Gentiva Health Services - CEO*

A little over a million.

John Potapchuk - *Gentiva Health Services - CFO*

Well, some of that one can assume will be used up in the fourth quarter also.

Art Henderson - *Jefferies & Co. - Analyst*

What does that mean? I'm sorry, in the fourth quarter. Yes, okay. So you used some in the fourth quarter and then you used the balance in the rest of the year?

John Potapchuk - *Gentiva Health Services - CFO*

Right.

Art Henderson - *Jefferies & Co. - Analyst*

Okay, fine. Let me ask you what percentage of your revenue does come from Florida?

John Potapchuk - *Gentiva Health Services - CFO*

We have not broken that out, but we would tell you that we have more than 40 locations in the state of Florida certainly among the most -- the highest concentrations of business we have in the country.

Art Henderson - *Jefferies & Co. - Analyst*

And your locations do about what in terms of revenue on average?

Ron Malone - *Gentiva Health Services - CEO*

Well, they have -- well -- I will stay away from that. It is another way of doing the math I suppose, but it is a high concentration of particular Medicare in the state Florida. We have also a significant amount managed care lives there through CareCentrix as well.

Art Henderson - *Jefferies & Co. - Analyst*

Okay. Let me ask you on a quarter-to-quarter basis, how much variability do you have in the gross margins by payer mix? In other words, in the non-CIGNA commercial business, what sort of range of variability do you have in that margin?

John Potapchuk - *Gentiva Health Services - CFO*

From quarter to quarter?

Art Henderson - *Jefferies & Co. - Analyst*

Yes, is it pretty much static, or does it move around?

Ron Malone - *Gentiva Health Services - CEO*

Well, the gross margin would be pretty static. The operating margins would be somewhat dynamic based upon the volume levels that we see, for instance, in the fourth and first quarter versus the third quarter. And we have also seen nice operating improvement in the CareCentrix business as we put more business through the model.

Art Henderson - *Jefferies & Co. - Analyst*

Okay and then lastly, you talked about the cash balance building up in '05. I'm just wondering why that you have to have such a high cash balance? I mean why wouldn't you just do a special dividend or something to get that down? I don't understand it.

Ron Malone - *Gentiva Health Services - CEO*

I think Matthew Ripperger made the comment about the cash balance building. We did not. And I would not read that we -- the fact that we have excluded acquisitions and share repurchases and anything else from -- we gave you a list of things we excluded from our preliminary outlook -- I would not take that as saying that we don't have interest in those. We will continue to work closely with our board on all of those opportunities. We are mindful of that cash. Point taken. We would like to see it put to work as well.

Art Henderson - *Jefferies & Co. - Analyst*

Okay. Alright. Thank you.

Operator

Eric Gommel. Legg Mason.

Eric Gommel - *Legg Mason - Analyst*

Building on Art's question, with regard to acquisitions, I think you have expressed an interest in the staffing business as a potential area to pursue. I am curious I believe there were some restrictions on your ability to make those acquisitions, and I wanted to know the timing of when that was lifted? And then if you could give me some idea of what the pipeline for potential acquisitions might be in that space and maybe typical size and valuation?

Ron Malone - *Gentiva Health Services - CEO*

Well, I think -- let me say a couple of things. First on staffing. Our covenant not to compete in that space expired this month. So it has now expired. So we could reenter the space. If we did, we would do so thoughtfully. We see that the valuations look pretty fall to us, many companies in that particular space.

It is also fair to comment we have also spoken for instance about hospice and we have talked about our core space. You know we have got that potential acquisition activity around our nursing and therapy business.

If you think of our business or the way we look at it is perhaps think of two circles. The inner circle would be the direct delivery of care, and the outer circle might be something more like staffing. So that we mention staffing we believe it is complimentary to what we do because of recruiting, you know the broader recruiting and being able to put caregivers to work and being able to leverage our employment brand.

But we also have a keen interest in continuing to grow our core direct delivery as well, and that is both in homecare and we have also said we have watched hospice with interest because to us hospice is homecare for the terminally ill, and it is a different part of homecare because it bears a different Medicare certification. The operating model is really quite similar to what we know and understand today.

Eric Gommel - *Legg Mason - Analyst*

I guess building on that, in the hospice space given the difficulties of one company just recently and a couple companies over the past month, and are you seeing any change in the valuation of potential acquisitions or any change in the pipeline?

Ron Malone - *Gentiva Health Services - CEO*

Well, I think it is fair to say that our expectation would be that expectations might soften over time. I don't think there's an immediate, but I cannot imagine that potential acquisition candidates would not temper their expectations given what has happened in that market. I would assume so.

Operator

Darren Lehrich. Piper Jaffray.

Darren Lehrich - *Piper Jaffray - Analyst*

Good morning, everyone. Just going to your preliminary '05 revenue guidance, I'm wondering if you could give us a sense for the range that you put around the growth in non-CIGNA revenue and then the growth in CIGNA revenue that is embedded in that guidance, and then I have a question about CareCentrix?

John Potapchuk - *Gentiva Health Services - CFO*

This is John. I think at this point in our guidance we're looking at CIGNA to be relatively flattish. But from a non-CIGNA standpoint, we are looking at a range right now of 8.5 to 12 percent. Again, that is looking at 53 weeks this year versus 52 next year. If you tried to put it on a 52-week scale, you may raise those percentages up a percent or so. 8.5 to 12 on a reported basis.

Darren Lehrich - *Piper Jaffray - Analyst*

Okay. I guess just a flattish assumption with the CIGNA business, how comfortable are you with that just given the enrollment numbers that are out there with some of the managed care analysts and what you're seeing as you talk to CIGNA about that?

Ron Malone - *Gentiva Health Services - CEO*

We don't have a clear view of CIGNA's enrollment for next year. But what we see today, if there were a softening, it perhaps could be offset by our penetration in some areas of CIGNA that we do not manage today. So our assumption at this point based on all that we know today is for it to be relatively flat.

Darren Lehrich - *Piper Jaffray - Analyst*

Okay and then if I could, as it relates to the pricing environment for CareCentrix, could you just give us some commentary on whether you're seeing price sensitivity in the payer market? If you could, I know you don't speak a whole lot about your customer roster, but if there are any changes that you have seen or we should expect to see through the balance of the year in your major customer base?

John Potapchuk - *Gentiva Health Services - CFO*

I think the pricing environment is probably more favorable than it was a couple of years ago. You know in general just sort of speaking at the macro level, Medicare has been a significantly better payer than it was previously. You have seen capacity directed toward the Medicare, so the Medicare availability. Saying that, we always expect pressure on per unit rates from managed care. That's just a given for us.

I think another important counterpoint to pricing is the realization on our part last year that we had to make procurement of services a core competence of the CareCentrix business. And I think you see that reflected in our market -- the way we recast thus far HME network. But we expect to take that competence and drive it to all areas, and we become -- we already know that we are a very large purchaser of the services, and now we are on a mission to become a smarter purchaser of those services. And even with that right now, CareCentrix is seeing double-digit -- excluding CIGNA -- CareCentrix is seeing double-digit growth.

So we think we have a compelling story for our managed care clients. We just have to be continually sharper and smarter in the way we procure services so that we have a comfortable margin there in the middle.

Darren Lehrich - *Piper Jaffray - Analyst*

And your customer roster?

Mary Morrisey-Gabriel - *Gentiva Health Services - SVP & Chief Sales Officer*

I would say -- this is Mary -- the pipeline certainly is still full. We're very excited. We are beginning a pilot with a significant payer in the Southwest region of the country this upcoming quarter, and we continue, although we cannot announce, to have growth and continue to have targeted focus on managed care payers.

Darren Lehrich - *Piper Jaffray - Analyst*

Okay, and if I could you squeeze one more in as it relates to staffing. You said up 29 percent with your caregivers. That is an acceleration over the second quarter, which if I recall was about 25 percent. Is that all specialty-related?

Ron Malone - *Gentiva Health Services - CEO*

No, it is not all specialty-related. Certainly we are a considerably larger employer of therapists across several disciplines than we were just a couple of years ago, and that growth in our employment of therapists is primarily related to our focus in the specialty area.

I also might say that we said before on a couple of calls that after a period of time we have a ramp-up period with these caregivers, and right now we see that ramp-up period as occurring sort of kind of in the three to six-month range. It is probably not less than three, but typically not more than six because once they get to hat six-month mark, we're very pleased with what we see as it relates to the productivity. And as I mentioned, their turnover rate is considerably lower.

We have made a very clear effort to really bring those people in as part of our team, let them know what we are trying to accomplish at the market level, to offer them educational opportunities to access the benefits, because I mean we really believe in many markets he or she who has the caregivers win as it relates to our branch business. So we are very very focused in this area.

Operator

Arthur Henderson. Jefferies & Co..

Art Henderson - *Jefferies & Co. - Analyst*

On your '05 guidance, what should we assume for your tax rate? Is it 38 percent or -- what do you think we should use?

John Potapchuk - *Gentiva Health Services - CFO*

We are using mid 38s. I mean it is 38.2 is what we are looking at for this year, and dialed in is roughly that same rate for next year.

Art Henderson - *Jefferies & Co. - Analyst*

And your outlook on SG&A, should we -- is it safe to just take your third-quarter number and annualize it and maybe grow it a little bit? Is that where we should look at '05 SG&A?

John Potapchuk - *Gentiva Health Services - CFO*

Yes, keeping mindful of the fact that as Ron talked about some of our initiatives, particularly in the IP area, training and development, there is certainly cost associated with that that will grow into 2005.

Art Henderson - *Jefferies & Co. - Analyst*

Okay. Alright. Thanks.

Operator

At this time, we have no further questions in queue.

Ron Malone - *Gentiva Health Services - CEO*

Good. I would like to thank everyone for your participation this morning, for your continued in Gentiva. We will keep you informed about our progress and look forward to speaking with you all again on our fourth-quarter earnings call. Good day.

Operator

Thank you. Ladies and gentlemen, this conference will be available for replay starting today, Thursday, October 28 at 1:30 PM Eastern time and will be available through next Thursday, November 4 at midnight Eastern time. You may access the AT&T Executive Playback Service by dialing 320-365-3844 and then enter the access code of 748817. (Repeats numbers.)

That does conclude our conference for today. Thank you for your participation and for using AT&T's Executive Teleconference. You may now disconnect.