MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, good day, and thank you for standing by, and welcome to the Gentiva Health Services Fourth Quarter Earnings Conference Call. At this time, all lines are in a listen-only mode. Later, there will be a question-and-answer session and instructions will be given at that time. If you should need assistance during the today's call, please press "*" and then "0" and as a reminder, this conference call is being recorded. I will now to turn your conference call over to your first presenter Ms. Mary Morrisey-Gabriel. You may please go ahead.

Mary Morrisey-Gabriel, Senior Vice President and Chief Sales Officer

Great, thank you. Good morning and thank you for joining us this morning. I am Mary Morrisey-Gabriel, Senior Vice President and Chief Sales Officer at Gentiva Health Services and this is Gentiva's fourth quarter and fiscal 2003 earnings call. We hope that each of you has had a chance to review the Company's fourth 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 fourth quarter, and to John Potapchuk, our Chief Financial Officer for additional comments. Also joining us for the call and 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 that 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 risk of competition, changing market conditions, changes in laws and regulations affecting our industry, and numerous other factors discussed in our fourth 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 statement in our news release issued earlier or last night, as well as similar language in our most recent 10-K. We are also operating under the Securities and Exchange Commission 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 limitations 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 a 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 website, 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 website 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 and now let me turn the call over to Gentiva's Chief Executive Officer, Ron Malone, for comments on the Company's fourth quarter and 2003 performance.

Ronald Malone, Chairman and CEO

Thanks Mary. Good morning everyone and thanks for joining us. I will begin by providing comments on our fourth quarter and year-to-date performance highlighting events and key accomplishments during the quarter. I will then turn the call over to John Potapchuk for a closer look at our financial performance before I make some comments about 2004 and then turn to you for questions.

To put things simply, we had a good fourth quarter adding to a solid year. As we reported in our earnings release, Gentiva continues to show steady and more predictable performance. And we are proving that we can manage effectively through a dynamic home healthcare marketplace. For those of you who haven't yet had the opportunity to see our news release, here's a brief run down of our results for the quarter and the year. Net revenues for the quarter were $204 million, up 6.4% over the same period last year. Revenues for all of 2003 were $814 million, an increase of 5.9% over 2002. Net income for the quarter was $1.53 per diluted share compared to $0.19 per diluted share in the fourth quarter of 2002 and net income for the fiscal year was $2.07 versus a loss of $1.87 per diluted share in 2002. These 2003 results reflect a tax benefit associated with the reversal of the deferred tax valuation allowance. Excluding the impact of this one-time tax benefit and assuming a normalized tax rate of 39%, net income on a pro forma basis for the fourth quarter of 2003 was $0.15 per diluted share compared to $0.12 in the fourth quarter of 2002. For the full year, pro forma net income was $0.52 per diluted share versus $0.24 for the same period in 2002.

Our other financial results were also positive. We generated positive cash flow from operating activities of over $30 million and we ended the quarter with a strong balance sheet; more than $110 million in cash and short-term investments and no debt. Our CFO, John Potapchuk will cover these and other areas in his remarks.

We are pleased with our performance for the quarter and the year, especially with our increases in both referrals and admissions during the fourth quarter. Our admissions have grown in the double-digits between fiscal 2003 and 2002. We can attribute this to a number of factors: the expansion of our sales force in 2003, the ability of that expanded sales team to effectively target market opportunities, improvements in our nursing operations that are increasing our capacity to accept cases and convert more referrals into admissions, our ability to deliver high quality care and the recruitment and retention efforts that are increasing the numbers of caregivers we have available. We are also able to deliver consistent results despite the changes that have occurred among our 3 payor groups. This is due in part of our strategy of focusing more on Medicare and commercial insurance and less on Medicaid and related programs.

Medicare revenues for the quarter were up 25.2% from the fourth quarter of 2002 and increased 10.1% for all of fiscal 2003. We have also seen change among our commercial insurance payers as managed care companies continue to look for new ways to deliver services more effectively and to control cost. Because we've been able to manage effectively in this environment, our commercial insurance revenues were up 4.5% for the quarter and 5.9% for the year. We have been able to renegotiate nursing contracts with a large number of managed care customers for better pricing and/or greater volume reflecting Gentiva's strong value proposition. We have seen a positive impact on commercial insurance business within our branch operations from the growth in performance of our Orthopedic Services Specialty Program. And through our managed care unit, CareCentrix, we're offering attractive solutions for the management of home health and related services to the managed care industry.

During the quarter we signed 3-year contract renewals with our 2 largest CIGNA CareCentrix customers, CIGNA HealthCare and Lovelace Health Plan. The new 3-year agreement with CIGNA provides for a scope of services comparable to past contracts. In fact, we have continued to work closely with CIGNA and our other customers to find innovative ways of delivering cost effective products and services without sacrificing quality and customer service.

Turning to our third payor group, Medicaid and other government, this category remains under pressure. As you know, we made a strategic decision some time ago to taper our involvement in certain State and County businesses. As a result our Medicaid and other government payor revenue declined 6.4% for the fourth quarter and 1.4% for all of 2003. At the same time, however, we believe states could benefit by recognizing the efficiency and effectiveness of home healthcare, and thus spend more of their resources on homecare and less on institutional care. We will work closely with our state industry associations and our associates to get this message out to legislators.

Much of our growth is going to come from continuous improvements in our Nursing branch operations. Today, I am pleased to report that those efforts are beginning to show results – in our alignment of sales goals with those of our Nursing branch operations, in our ability to affectively manage increased admissions, in our deployment of new technologies, in our move to better leverage traditional branch Nursing operations with our vertical specialty offerings, in our effort to put the right people in the right positions, and in our mission to foster a high-performance culture where our people live and practice the Gentiva values every day while we deliver on our goals.

We also continue to make strides in our clinical performance. We are ramping up the 2004 pilot program for our clinical management system including deployment of point-of-care devices beginning this summer with a larger rollout scheduled to start later this year. This system gives our clinicians even better access to information including historical and real-time patient data, better reporting on clinical trends, and real-time case conferencing, resulting in better coordination of patient care. We also continue to add to and improve upon our LifeSmart clinical care protocols to reflect our current best practices derived from our extensive and growing patient outcomes analyses. And we are now measuring our clinical performance against 2 different sets of metrics: independently gathered satisfaction surveys based on our own patient population and the performance of Medicare certified providers through the CMS homecare compare or Outcomes Based Quality Improvement programs. In the OBQI measurements, for example, the vast majority of our agencies performed at or better than the industry average for hospital readmission rates. This speaks to our clinical performance in helping patients achieve greater independence and a better quality of life. Also on the clinical front, we have expanded and enhanced our branch operations training program and we have added training programs to educate all our associates on our clinical outcomes to ensure understanding and alignment among our clinical, operations and sales teams.

Turning to other areas of our business, we continue the expansion of our vertical offerings. As we have said before, our goal is to capture incremental revenue and to build focused, specialized, trained teams of professionals capable of delivering exceptional and cost-effective care to our patients and excellent customer service to our referral sources. Just to give you an example of our progress, we had 88 orthopedic programs at the end of 2003, 50 of which were opened during the past year. Furthermore, we can attribute a significant part of our branch revenue growth to the orthopedic programs. Orthopedic services was the first of our specialty offerings, and during the latter part of 2003, we launched a pilot program for patients with balance issues who are prone to injury or immobility as a result of falling. We presently call this program Safe Strides and it is now in the pilot phase in 4 markets. We expect to roll out the program to more locations this year. Through Safe Strides, we work to identify and mitigate the reason for the imbalance rather than simply treating the effects and injuries after a patient has fallen. We are also continuing to pilot specialized cardiopulmonary and room-care programs and expect to launch them this year. We are evaluating and developing other new programs as well. All of these are in addition to our Rehab Without Walls services for home and community based neuro-rehabilitation.

On the technology front, our proprietary scheduling software CaseMatch has now been deployed throughout our branch operations. This tool allows greater precision in matching the caregiver to the patient based on criteria such as skills, availability, and geographic fit. Our Nursing branch operations are also benefiting from the Gentiva Performance Suite software we installed last year to monitor business trends. I'm pleased to report that we will be adding new Medicare management and clinical reporting modules by the end of second quarter. Our managers will use these modules to retrieve additional clinical performance information using patient outcomes data and they will review indicators of their success management of our Medicare business. We also plan to upgrade our Contact Center technology in the second quarter and implement a new customer relationship management system in the third quarter.

One other area of technology I'd like to mention is Gentiva University, our online training and learning program. During the quarter, Gentiva University won 2 prestigious awards from the International Quality and Productivity Center. We received first place as the most innovative corporate university and second place for the best new corporate university. Through Gentiva University, caregivers and administrative associates have access to more than 250 courses and over 3,000 patient education documents. Gentiva University has proven to be an important tool for recruiting and retaining caregivers through its unique access to continued learning and education. There's nothing else like it in the homecare industry.

Speaking of recruitment and retention, we continued to make progress during the quarter and the year. For fiscal 2003, we increased the number of our full-time caregivers by 30% over the prior year and significantly reduced turnover among those in this vital segment. In fact, we have seen a steady reduction in turnover among our associates in general versus the prior year, and this will be a continued area of focus in 2004.

Turning to the regulatory front, the Medicare market basket increase of 3.3%; implemented last October, will be reduced to 2.5% this April as a part of the recently enacted Medicare Reform legislation that also included a 5% rural add-on provision. As many of you know, these changes are already in our 2004 outlook. Regarding the other government-related matters that we discussed on the last call, we have nothing new to report at this time. That sums up my review of the quarter; I'd like to now turn over our call to our CFO John Potapchuk for a discussion of our financial performance. Then before we turn to your questions, I would like to give you a brief update of our goals this year. John.

John Potapchuk, Chief Financial Officer and Senior Vice President

Thanks Ron, and welcome everyone. I am pleased to bring you an overview of Gentiva's financial results for the fourth quarter and the full year of fiscal 2003. First, I would like to comment on the presentation format of our statement of operations. Continuing operations for both the 2003 and 2002 quarterly periods and fiscal years comprise the results of our Home Health Services business, including for fiscal 2002 restructuring and special charges. For the 2002 fiscal year, discontinued operations comprised the operating results of the Specialty Pharmaceutical Services business or SPS as well as the gain on the sale of SPS net of transaction cost and related income taxes. This business was sold to Accredo Health Incorporated (NASDAQ:ACDO) in June 2002. The fiscal 2002 results also included the cumulative effect of an accounting change net of tax, representing the impact of the adoption of FAS 142, which relates to goodwill and other intangible assets.

And that brings us to the format for income taxes. During the interim periods of fiscal year 2003, a portion of the Company's tax valuation allowance was utilized to offset the Federal income tax provision on taxable income. This resulted in an effective tax rate of about 7% for the year prior to a one-time tax credit. In this regard, during the fourth quarter of 2003, management determined that it was likely that the Company's net deferred tax assets will ultimately be realized due to Gentiva's achieved earnings trends and outlook. As a result, the full valuation allowance against net deferred tax assets was reversed in the fourth quarter of 2003, resulting in an income tax benefit of $35 million recorded in the statement of operations and an additional credit of $19.5 million relating to the tax benefits associated with stock compensation which was recorded directly to shareholders equity. During fiscal year 2002, income tax expense of $18.4 million in continuing operations, included a tax provision of almost $27 million, which was recorded to establish a valuation allowance against deferred tax assets that were recorded with the adoption of FAS 142 and write-off of goodwill. A tax benefit for the same $27 million was recorded in the cumulative effect of accounting change line in fiscal 2002.

Now with that I would like to bring perspective to some key financial measures. As Ron pointed out, we had a strong increase in Medicare revenues for the fourth quarter. This marks the second straight quarter in which the percentage increase in volume of new Medicare episodes compared to the same period of the prior year exceeded double-digits, 13% in the third quarter and 17% in the fourth quarter. This volume growth was the primary reason for the Medicare revenue increase. In addition about $1.6 million in revenue growth came from the 3.3% market basket rate increase that became effective for patients on service on or after October 1, 2003.

Finally, the Company's Medicare revenue in the fourth quarter of 2003 includes additional revenue from operational and clinical process changes and enacted late in the year.

In the Commercial Insurance and Other categories where we saw 4.5% increase in fourth quarter revenue, approximately 3.9% of the increase was due to new contracts signed during the past year and the remainder came from pricing and volume increases from previously existing business. And for the fourth quarter, CIGNA represented about 34% of total Company revenue versus 37% in the fourth quarter of last year. We continue reduce our reliance on the CIGNA contract as a revenue component to the growth in Medicare and other Commercial Insurance business. This growth combined with our strategic decision to reduce our emphasis on Medicaid has continued to drive changes in our payor mix.

In the fourth quarter, Medicare represented nearly 25% of our total revenue, up 4% from the fourth quarter of 2002. Commercial Insurance and Other represented about 56% of total revenue, a decrease of 1% from the fourth quarter of 2002. And Medicaid and Local Government represented 19% of total revenue, a decrease of 3% from the fourth quarter of last year.

For the full year 2003, Medicare revenue increased by $16.4 million or 10.1%. Medicaid and other government revenue decreased by $2.3 million or 1.4%, and Commercial Insurance and Other revenue increased by $31.4 million or 7.2%, all of this resulting in an overall net revenue increase in fiscal 2003 of $45.5 million or 5.9% as compared to fiscal 2002.

Gross profit in the fourth quarter of 2003 was approximately $10.7 million higher than the corresponding period of 2002. As a percentage of net revenues, gross profit margins increased 3.3% from 33.2% in the fourth quarter of 2002 to 36.5% in the fourth quarter of 2003. The increasing gross margin percentage was due primarily to improved rates in both Medicare and managed care contracts, as well as a favorable change in business mix in which volume growth of higher gross margin Medicare business more than offset the anticipated revenue loss in certain low margin Medicaid and local programs.

Gross profit for fiscal 2003 was approximately $34.4 million higher than fiscal 2002. As a percentage of net revenues, gross profit margins increased 1.6% from 33.0% for fiscal '02 to 34.6% for the full year of 2003. Approximately $6.3 million or 0.8% of this increase related to special charges associated with insurance cost and about $2.5 million or 0.3% to a revenue adjustment relating to partial episode payments both of which were recorded during 2002. The remaining increase in gross profit of about 0.5% was due primarily to increases in Medicare episodes serviced, reductions in workers compensation cost and other positive trends offset somewhat by reductions in Medicare rates earlier in the year.

Selling, general, and administrative expenses increased $9.2 million in the fourth quarter of 2003 compared to the fourth quarter of 2002. About one-half of this increase related to field operating and administrative cost to service incremental revenues. Of the remaining increase of about $4.5

million, a third represented incremental selling expenses, about a third represented cost of our strategic initiatives including incremental IS cost and about a third related to bad debt expense due mainly to a credit that was recorded in the prior year quarter.

For fiscal 2003, selling, general, and administrative expenses, including depreciation and amortization, decreased $24.4 million from the corresponding period in fiscal '02. Excluding the impact of restructuring and special charges that were recorded in the prior year, SG&A expenses increased about $15.4 million for fiscal 2003 compared to fiscal 2002. The increases for fiscal 2003 related to increases in sales and field administrative expenses from headcount additions, investments in technology initiatives, and costs relating to training in connection with the implementation of provisions of HIPAA, and our new software-based scheduling system. These increases were partially offset during the fiscal year by reductions in corporate administrative expenses resulting from restructuring efforts following the SPS sale in the second quarter of fiscal year 2002.

Overall for 2003, headcount of personnel dedicated to sales and clinical care coordination efforts grew by 19% while headcount of field and corporate administrative personnel grew by less than 2% for the year. For the fourth quarter and the full year 2003, we reported net income per diluted share of $1.53 and $2.07 respectively in accordance with Generally Accepted Accounting Principles. These amounts include the one-time tax benefits associated with the reversal of the tax valuation allowance as previously discussed.

In our earnings release, we also reported pro forma income from continuing operations and reconciled such amounts to the reported GAAP presentation. We believe the pro forma presentation is useful to investors, since it excludes the one-time tax benefit recorded in the fourth quarter, excludes non-recurring, restructuring and special charges recorded in the second quarter of 2002, and presents all period results using a 39% effective tax rate which may be more representative of the Company's normalized reported rate in the future. In this regard, fourth quarter income from continuing operations on a pro forma basis was $0.15 per diluted share in the 2003 period and $0.12 per diluted share in the 2002 period. Pro forma income from continuing operations for the full year 2003 was $0.52 per diluted share versus $0.24 per diluted share for fiscal 2002.

We are pleased with the strength of the Company's balance sheet. At the end of the fourth quarter – cash, cash equivalents, restricted cash, and short-term investments were $110 million and we continue to have no debt. Net accounts receivable were up $7.9 million from 2002 and our day sales outstanding at December 28, 2003 was 59 days, consistent with both the end of the third quarter of 2003 and December 2002.

On another matter following the completion of a 1 million share repurchase program in the second quarter of 2003, we announced in August that our Board had authorized additional stock repurchases of up to 1.5 million shares. In connection with this second program, we have purchased approximately 438,000 shares of common stock in the open market at a cost of approximately $5.3 million or $12.18 per share through the end of the fourth quarter. For this second program, 54,000 shares were purchased during the third quarter and approximately 384,000 shares were purchased during the fourth quarter. A portion of these repurchases were completed under a Rule 10b5 plan established prior to December 1, which was the beginning of our current blackout period. Under this plan, we have continued to purchase shares of Gentiva stock in the open market through the current date. For all of fiscal 2003, we repurchased a total of over 1.4 million shares at an average cost of $10.03 per share for a total expenditure of over $14.4 million.

Now I would like to take a moment to review our 2003 financial performance in relation to the guidance and targets that we presented on earlier conference calls or that is included in external projections. First, our 2003 net revenues of $814 million was in line with our 2003 revenue projection of a range between $810 million and $820 million. Secondly, reported earnings for 2003 was $2.07 per diluted share including the one-time tax benefit of $1.28 per share. The remaining diluted EPS of $0.79 per share compares favorably to our most recent guidance of a range between $0.71 and $0.75 due to stronger than expected operating performance and a somewhat lower than expected tax rate. Next, if the one-time tax benefit were excluded and assuming a normalized tax rate of 39%, pro forma net income would have been $0.52 per diluted share in 2003. This compares favorably to the analyst consensus estimates of $0.50 per diluted share. Capital expenditures were $8.8 million in 2003, in line with our earlier target of a range between $8 million and $9 million. And finally, cash flow from operating activity exceeded $30 million in 2003, above our targeted range of $20 million to $24 million due to timing of payment of certain liabilities as well as somewhat lower tax payment.

At this time I would also like to reaffirm the 2004 outlook that we had published in a news release on December 23 of last year. Net revenues are expected to be in a range of $835 million to $850 million. 2004 net revenues, excluding revenues from CIGNA Healthcare, are expected to grow between 8% and 12% compared to 2003. Diluted EPS is anticipated in a range of $0.57 to $0.63 per share. This outlook reflects estimated diluted shares of approximately 27.2 million and is based on a normalized tax rate for reporting purposes of about 39%. It is worth noting that we expect the cash payment for taxes to be less than the reported tax provision in 2004 due to the utilization of some of our deferred tax assets. We expect positive cash flow from operating activities to be between $25 million and $30 million. Capital expenditures for 2004 should be in a range of $12 million to $13.5 million due primarily to ongoing investments in the technologies that Ron discussed earlier. And depreciation should be in a range of $8 million to $9 million. Now, I would like to turn the call back to Ron for some brief comments on 2004 strategies before we take your questions. Ron?

Ronald Malone, Chairman and CEO

Thanks, John. Before we turn to your questions, I want to tell you that the leadership team is committed to the strategic objectives we have set for Gentiva. We are going through considerable effort to communicate these objectives throughout the entire organization. I'd like to share those with you as well. We are going to take this Company to new levels by continuing to build a high-performance culture where change is desirable, opportunities are pursued, and achievements are well rewarded. We will continue to work on becoming the employer-of-choice in home health care with particular focus this year on caregivers. We will continue establish Gentiva as the clinical leader in home health. We intend to update our brand messaging to articulate and communicate more effectively all that we have to offer to patients and customers. We intend to accelerate profitable growth, and we will work to become a more efficient organization as we realize benefits from our investments. And we will increase value for all constituents - for our patients, referral sources, payors, employees, and shareholders; for the shareholders that means not only strong integrity and a comprehensive compliance program, it also means sustainable performance of the kind we have discussed today and increasing the value of Gentiva. These are challenging goals but we are confident that we can deliver on them. With that we'd now be pleased to take your questions.

Mary Morrisey-Gabriel, Senior Vice President and Chief Sales Officer

You can open up the call now, thank you.

QUESTION AND ANSWER SECTION

Operator: Okay. Great. Ladies and gentlemen if you have a question, please press "*" "1" on your touchtone phone. You will hear a tone indicating you've been placed in the queue. You may remove yourself from queue at anytime by pressing the "#" key. If you are on a speakerphone, please pick up your handset before pressing the numbers. Again for a question, please press "*" "1" and one moment for our first question.

The first question is from Larry Marsh from Lehman Brothers. Please go ahead.

<Q – Lawrence Marsh>: Yes, thanks, good morning John and Ron and, you know, way to wrap up a nice year for Gentiva, a couple of questions. CIGNA, I know Ron you've talked about trying to reduce your dependence on that relationship obviously expanded that to 3 years with the renegotiation. Could you elaborate – you've made a couple of changes in your provider network – have there been other changes besides Apria (NYSE:AHG)? And, you know, if we think about '04, should we think about CIGNA's contribution to overall Gentiva revenues in that 29% to 31% range or is that a little bit off?

<A – Ronald Malone>: Yeah, I think to start with the end of your comment, I do believe that is a reasonable range for you to expect for this year. We began relatively early last year by engaging some assistants to take a look at our provider network and to begin preparing for our work with CIGNA. And we followed through with our commitment to CIGNA to take to them innovative solutions designed to help them control cost while continuing to deliver high-quality service. One of the elements of our response to their needs was to recast our network in a more regional way and focus on some innovative delivery, not that – for certain products that we've discussed this on a prior call. As a result of that, we did change our provider relationships to increase the amount of dependence on some present providers and to bring new providers. Given all those changes, we could recast up to 25% of our spend within the network, not likely be quite that high, but could be that high. I would also note that Apria has been a fine partner and we would look forward to keeping the relationship open with them for the future.

<Q – Lawrence Marsh>: Okay. And I know you have a contractual relationship on some of the specialty business with Accredo, is that still in place for the foreseeable future?

<A – Ronald Malone>: That is – Accredo is another fine provider in the network. As we have said in the past, the way that agreement is structured, it is structured in such a way that they have a long-term relationship with us within the context of being responsive to changes in market pricing.

<Q – Lawrence Marsh>: Got it. Okay. Second question I guess if you'll elaborate, you know, your cash flow this past year very good. Your guidance for this year assuming a reduction of up to $5 million in cash flow from operations, obviously $25 million to $30 million – you know, could you elaborate on why you think that might be down from this year and confirm that your share count is not assuming any additional share repurchases; is that correct?

<A – John Potapchuk>: No Larry, this is John. Let me handle that on the second question we have – the $27.2 million does in fact suggest that during the course of the year, you know on a monitored basis we will continue to make stock repurchases and at some point in the year complete the $1.5 million buyback program, that's all dialed into the projection of $27.2. In terms of the cash flow issue, I think a couple of things to note, one being that you know that while I suggested in the earlier remarks that our cash payment of taxes will be less than the 39% rate, we still will be paying some level of taxes next year and right now if I had to estimate I would say it would be in the 15%-20% of taxable income. So, you know that's certainly one component of it. The second issue is when you go through our, you know, our calendar year there is actually one additional payroll on the administrative side that's being made in 2004 relative to 2003. You know, every 6 years we actually dial in an extra payroll and that happens in the year 2004, and then finally, just the timing of certain expenditures in December of last year rolled over into the beginning of January. So those 3 components suggest that the $25-$30 million of operating cash flow is a reasonable number.

<Q – Lawrence Marsh>: How big is the additional payroll expense?

<A – John Potapchuk>: Well we have already – it's accounted for in the P&L, it's just the timing of the payment. It's – the extra payroll I think is in the $3-$4 million range.

<Q – Lawrence Marsh>: Okay and the final question, I guess Ron and John with the good cash flow generation you are continuing to build up cash. Any updated comments on the opportunities to invest that in you know acquisitions either in home health agencies or perhaps building hospice?

<A – Ronald Malone>: Larry, this is Ron. I believe that our comments today will be consistent with those we made on our previous call. We are dedicating more time and attention in this area at the present and would expect to spend more time on it this year. We have looked and continue to look at a wide range of opportunities. We are – as we have said before, very careful in this area particularly where it involves overlap with current operations. But I think it's very consistent. We have a keen interest in diversifying our payor sources and in building into other areas that we believe are close around our core.

<Q – Lawrence Marsh>: Okay, very good. Thanks.

<A – Ronald Malone>: Thanks Larry.

Operator: Thank you. Your next question is from Arthur Henderson from Jefferies & Company. Please go ahead.

<Q – Arthur Henderson>: Hi, good morning. I was wondering if you can elaborate a little bit more on how you are driving Medicare growth in the field, obviously the volume was up significantly and I am wondering if you are doing anything different.

<A – Ronald Malone>: Well, I think that we have just followed through and executed on the plans that we had previously announced. We increased our sales team by about 20%. We similarly increased a group of caregivers who are based in the field to facilitate admissions by working very closely with patients and physicians. We also have really focused at the branch level to improve operations and have made the necessary investments to accept more referrals and convert those into admissions. We realized pretty early that we had to invest in branches that were growing so that we can maintain high levels of clinical care and their clear compliance, so that we were building on a stable base and I am happy to report that we believe that that's going quite well.

<Q – Arthur Henderson>: Where would you be comfortable with a balance of sort of percentage of revenue derived from Medicare, obviously, it went up little bit this quarter, but where would you be happy with that going to?

<A – Ronald Malone>: Well, I can tell you at the branch level, Arthur we have observed over the past few years that our branches that are Medicare certified, carry a higher level of overhead than a non-certified branch. Generally, our view is at the branch level we would like to see that at or above 30% in the mix, you know, as a component of total mix at the branch level. So I think it's pretty – I think that is very consistent. Thinking we are – we believe we could to grow Medicare for the foreseeable future assuming you know, what we believe is a stable reimbursement environment.

<Q – Arthur Henderson>: Right. Okay. I noticed that the SG&A was up a little bit this quarter I guess and I don't have the number in front of me, about $67 million somewhere in that range. And I am wondering some of the technology initiatives that you have put in place, should we see that number on a percentage or absolute basis going down a little bit now that you have deployed this scheduling software and things of that nature?

<A – John Potapchuk>: Well, I think Arthur you have to look at all the technologies that we are working through during the... not only the scheduling system that is in place. But a number of things that we working on during the course of 2004, the new clinical management system with point of care being certainly a significant one, sales management system being another and then our contact center technology being a third. As we get some clarity, as those get rolled out and implemented, we will have a little bit more clarity and we will certainly share that with you on what that might do with our SG&A.

<A – Ronald Malone>: Now, I think it's – Arthur it's worth noting that when we announced I suppose a year or so ago that we were going to increase the sales force, we said at that time that we would expect to see leverage in the second year from those sales investments. I think that is pretty similar with our – both our thinking and our experience at the branch level. When we invest to start the growth of a branch, sometimes that means an additional full Clinical Manager at the site or whatever, we would not expect to see immediate leverage but rather leverage in the future as we added on additional volume, so I am comfortable that we will realize leverage as we go along.

<Q – Arthur Henderson>: So it is safe to say that we will see a run rate on SG&A kind of where we are right now, but improving a little bit throughout the year, maybe?

<A – John Potapchuk>: That will be our expectation.

<Q – Arthur Henderson>: Okay and then one last question and then I'll let someone else ask. As far as CIGNA is concerned with Apria stepping out, how is it going to fill that void? Do you already have people basically lined up or is there someone that's, you know, of comparable size that's going to step in, what does that look like?

<A – Ronald Malone>: Right. We have a policy of being three-deep in all of our service areas and our network that means 3-deep in those areas affecting DME, HME, respiratory therapies, nursing, etc. We made sure to underpin all of our work for the renewal of the CIGNA contract with a willing provider network and we have followed through with that, we do expect and have added as I said some new providers to handle relatively large regions of the country and we are very pleased with the progress we made and the response of current providers to step-up and want to participate more fully in the network, as well as, aggressive efforts from those that didn't participate to join the network. So we – and as we said in our recent release, we did not anticipate any issues around the ability to service our patients through that transition work. I would note as well that Apria has fully cooperated with that transition.

<Q – Arthur Henderson>: Yes.

<A – John Potapchuk>: And Arthur one last think, it's interesting to note that we certainly have said before that included in our CareCentrix network are about 1,900 credentialed providers and between a half and two-thirds of those are involved in HME and respiratory products.

<Q – Arthur Henderson>: Okay. That's good to know. Well thanks, very good quarter.

<A – Ronald Malone>: Thank you very much, Arthur.

Operator: And your next question is from Tony Campbell from Knott Partners, please go ahead.

<Q – Tony Campbell>: Good morning gentlemen. A fine quarter and congratulations on navigating through I think some tough issues, particularly CIGNA. I have a couple of questions if I might, I am wondering if you could just give us a sense of the margins in the ortho service versus corporate margins assuming that we are operating at a reasonable pace?

<A – Ronald Malone>: Well, as we have said before Medicare as a payor is a higher gross margin product to service but also carries higher cost of participation. Within Medicare, orthopedics is a higher reimbursement area, if you are focused in it as we are and able to deliver, you know, high quality care efficiently. I think the benefits, Tony, of this kind of a focused approach are multiple. I think we are able to deliver better care to our patients. We have specialized teams of caregivers, which benefits us both from a recruiting and retention point of view as well as the productivity and best practices point of view. I think we are able to deliver higher quality and more responsible service to our referral sources. So, I think that not only in this particular case are we building higher margin business, we are building business that we can continue to grow. So, John, do you have additional comments?

<A – John Potapchuk>: No, that's good. I think you have answered.

<Q – Tony Campbell>: So I guess where I'm kind of leading, is it better to grow this business or have other areas than to try and make an acquisition say in, you know, in some sort of other area, say the hospice area, where we may not be as capable?

<A – Ronald Malone>: I believe that it is possible to be open-minded about both, Tony. I think we believe that we can continue to grow the – organically, grow this Medicare business. We've seen nothing in recent trends that would cause us to believe otherwise. We also though believe that we should be open minded about adding on sensible ancillary services around our core and I think that we now have increased confidence as a leadership team that we could in fact manage that activity. So, I think we would – we would look it – we think that a good maturing leadership team should be able to do both.

<A – John Potapchuk>: And adding in those ancillary services as well as geography could come through acquisitions or it could come through start up and --

<A – Ronald Malone>: That is correct.

<A – John Potapchuk>: And we evaluate that in all cases.

<Q – Tony Campbell>: Okay I can't complain, you guys have done a fine job. One final question, once we get – since we are generating a bunch of cash here and you're doing a great job in that area, once we get through this particular share repurchase program, would you implement another one or would we be looking at some sort of dividend policy that could be aggressive?

<A – Ronald Malone>: Yeah I think while we wouldn't predict what our Board would authorize at a future date, we will evaluate both of those that you mentioned as uses of our cash.

<Q – Tony Campbell>: Okay, thank you. Congratulations and good luck.

<A – Ronald Malone>: Thanks, Tony.

<A – John Potapchuk>: Thank you very much Tony.

Operator: The next question is from the line of Sheryl Skolnick from Fulcrum Global Partners. Please go ahead.

<Q – Sheryl Skolnick>: Yeah actually she got it right. Good morning everybody. I will echo Tony's comments. And you've finally got to me. For a minute I thought I was on the wrong call and I had a sell-rated stock I was trying to talk to. Okay. So it is a very nice job and obviously we have got some very good and pleasant surprise. But I – you will forgive me, I am not sure if I understood, a couple of the things and I think it's important that we do understand it, that you said about Medicare. You had stunning growth in unit volumes, and let me ask the question specifically. How much of this, if any, was flu related and how much of that unit growth, 17%, is likely to be sustainable, i.e. as a result of strategic decisions made by the Company likely to give us year-over-year benefit in '04?

<A – Ronald Malone>: Well I don't think that we would ascribe any material part of that growth to the change in the flu season year-over-year --

<Q – Sheryl Skolnick>: Good.

<A – Ronald Malone>: But I will tell you that the Orthopedic Services group did contribute mightily to our growth and – you know just, I think if anything, underscores the importance of focused approach to Medicare as that market matures.

<Q – Sheryl Skolnick>: Did you say mightily or mildly?

<A – Ronald Malone>: I said mightily.

<Q – Sheryl Skolnick>: Oh Good. Okay. Okay, All right, so this is something that's clearly, you did something, you took a step, you did something, you got results, we like the results, you are going to continue to do more of it, and that more of it could lead to sustainable growth, maybe not of the same magnitude, but certainly it looks like it's working today?

<A – Ronald Malone>: That is correct.

<A – John Potapchuk>: Sheryl, I guess I will just comment, if you look at some of the traction that we seem to be gaining – if you look at our third quarter 10-Q, we indicated that for the 9 months we had a 6.5% increase in episodes. But for the third quarter that was 13% and now in the fourth quarter that same statistic is 17%.

<Q – Sheryl Skolnick>: So it's not just more sick people and it's not just getting nursing – straight nursing referrals out of the case managers and doctors?

<A – Ronald Malone>: Right.

<Q – Sheryl Skolnick>: Okay. You made a distinction – you said Medicare revenues at the branch could climb as high as 30% of branch revenues. What's the difference between the percent of revenue at the branch versus percent of revenue on a consolidated basis?

<A – Ronald Malone>: You know they could be relative to – I mean we could see that at the corporate level as well. I think the unknown there is just what our overall mix vis-à-vis commercial payors would be.

<A – John Potapchuk>: Yes.

<A – Ronald Malone>: And the relative growth rates of the two.

<A – John Potapchuk>: And Sheryl I think what Ron was saying is that we certainly, in order to operate most efficiently at the branch, would want branches who are certified – that are certified to have at least 30% of their mix in Medicare. We certainly have branches that are, you know, predominantly Medicare also.

<Q – Sheryl Skolnick>: Okay so the difference is that some branches aren't certified from Medicare?

<A – Ronald Malone>: Right. That's correct.

<Q – Sheryl Skolnick>: Okay.

<A – Ronald Malone>: But as we look at our overall business, we have the strength of the CareCentrix network, which allows us to put commercial insurance through the network when it makes sense for us to do so, so that we can maximize the gross margins that we put through our branch units.

<Q – Sheryl Skolnick>: Right. Did you actually grow the number of branches that you are operating year-over-year?

<A – Ronald Malone>: No, we did not.

<Q – Sheryl Skolnick>: Okay so this is all on flat number of branches?

<A – Ronald Malone>: That's correct.

<Q – Sheryl Skolnick>: Any intent to grow the number of branches?

<A – Ronald Malone>: Yeah.

<Q – Sheryl Skolnick>: Not necessarily through acquisition, but that's also embedded in your guidance, that we might actually see in some – now that it is stable you might actually add some?

<A – Ronald Malone>: Yeah. As we gain traction, particularly in larger population centers, it just makes sense for us to spread out and open new locations. The locations are themselves primarily driven by the need to communicate – and recruit and communicate with caregivers. So in large population centers that have more challenging transportation systems, it will be necessary to spread out a bit.

<Q – Sheryl Skolnick>: Okay.

<A – Ronald Malone>: We have been cautious about that over the past couple of years, because there were times when we felt that we had branches that were perhaps too close together. But we also have the impact of the point-of-care devices coming along, which we believe will relieve some of that need for caregivers to come – physically come by our branches.

<Q – Sheryl Skolnick>: Sure. Okay. That makes very good sense. Now getting back to managed care. You did show very, you know, decent growth from new contracts of the roughly 5% – 5.5%, it looks like 4.5% of revenue came from new business. And I guess I would ask the question, are you satisfied with that level of new contract growth or will you be seeking to increase that this year?

<A – Ronald Malone>: No, we will be seeking – we have increased both attention and size of the team that is dedicated to building relationships with large managed care organizations, and we do want to accelerate that growth. We've seen nice interest in what we offer and we would certainly hope to. And I think it's also worth noting that while the new CIGNA agreement became effective in January, I think we have seen some softening from the impact of their decreased enrolments in the fourth quarter.

<Q – Sheryl Skolnick>: English translation is that their revenues were a little lighter than they might have been because they are not covering as many people – revenue to you?

<A – Ronald Malone>: Translation, yeah.

<Q – Sheryl Skolnick>: Yeah, okay. All right.

<A – John Potapchuk>: Although, I will say for the full year, our revenue from CIGNA was up, but it was flattish in the fourth quarter.

<Q – Sheryl Skolnick>: Okay, so flattish. Now, on Lovelace, which is the other second contract, congratulations on getting that one done – that's also a 3-year agreement?

<A – Ronald Malone>: It is.

<Q – Sheryl Skolnick>: Okay. Did you run into – I don't know what the status of that plan is whether they are healthy or whether they are CIGNA-like, so can you give us a sense of whether there were some of the same issues and challenges raised in those negotiations as you saw in CIGNA? Or can we expect that to be continuation on sort of normal ongoing terms?

<A – Al Perry>: Hi Sheryl this is Al Perry. I don't think we will see anything like those issues that are at CIGNA and not that we can see – we didn't run into the same issues.

<Q – Sheryl Skolnick>: Okay. So that – we shouldn't expect revenue and margin contraction on that piece of business as well?

<A – Al Perry>: Certainly not.

<Q – Sheryl Skolnick>: Okay.

<A – Ronald Malone>: Not that we are aware of.

<Q – Sheryl Skolnick>: Okay. Are there any other big contracts coming due?

<A – Ronald Malone>: We have a pretty active pipeline and are working very hard, and we will be sure to announce those --

<Q – Sheryl Skolnick>: No, no, I meant like the Healthnet deal?

<A – Ronald Malone>: Pardon me.

<Q – Sheryl Skolnick>: I am wondering when the anniversary date is for Healthnet and when you have to go into renegotiations with them?

<A – Ronald Malone>: I don't – we don't have – I mean we probably are close to an anniversary but the way that agreement is structured we would not be going in for a renegotiation.

<Q – Sheryl Skolnick>: Okay. So it's an automatic renewal unless something unusual happens? I guess what I am getting at is that there is nothing major lurking on the horizon like the renegotiation of CIGNA, is that correct, on the managed care side?

<A – Mary Morrisey-Gabriel>: Hi Sheryl, it's Mary. It's really right now a matter of policy we can't discuss what's in the pipeline.

<Q – Sheryl Skolnick>: No, I am not asking pipeline. I am asking existing business, are there any bogies you've got to get over?

<A>: Nothing material that we are aware of.

<Q – Sheryl Skolnick>: Okay. Okay. Great, let me see if there is anything else, okay and the restricted cash was just from the workers comp and you can get that back anytime you want, so we should count that as cash?

<A – John Potapchuk>: Absolutely, and we earn the interest on it.

<Q – Sheryl Skolnick>: Right, instead of paying the interest on the letter of credit, okay. All right great. Thank you very much.

<A – John Potapchuk>: Thanks Sheryl.

<A – Ronald Malone>: Thank you Sheryl.

Operator: Thank you, our next question is from Jerry Doctrow from Legg Mason, please go ahead.

<Q – Jerry Doctrow>: Good morning, I had a couple – just specific things I'm trying to understand kind of your growth strategy a little bit better, did you look at the Tenet Healthcare (NYSE:THC) properties that Amedisys (NASDAQ:AMED) announced they bought the other day?

<A – Ronald Malone>: Jerry, as sort of a matter of course we enter into confidentiality agreements with virtually every potential acquisition, so we really couldn't comment on that specifically.

<Q – Jerry Doctrow>: Okay, I'll take that to mean that you signed a confidentiality agreement and maybe looked at that one. How about the VITAS, which, you know, again was picked up by Roto-Rooter (NYSE:RRR) because they had a minority interest, but apparently it was on the block or people had made bids for it. Is that something you looked at or the type of thing that you would look at, something of that scale?

<A – Ronald Malone>: Well, as we said, we just can't comment on specific M&A activities, you know, we certainly are aware of VITAS in the market and perceive them as a high quality hospice provider.

<Q – Jerry Doctrow>: Okay, let me try – there was something, John, you said about insurance affecting sort of accounting, I didn't quite pick that up, what was that – was that worker's comp item a one-time adjustment or whatever, that you had mentioned or was that --?

<A – John Potapchuk>: Jerry, I'm groping, I know I --

<Q – Jerry Doctrow>: You just talked about it in relationship to the margins, you said the margins '03, '04 were up and there was something related to insurance, one-time adjustment on insurance?

<A – John Potapchuk>: Okay, yeah as part of the – our comparison on the margins for the full year, if you recall in last year, second quarter, we had taken restructuring and special charges of $46 million. About $6.3 million of that related to a change in the way we look at our insurance reserves and that charge went through as a reduction in gross profit last year.

<Q – Jerry Doctrow>: Okay.

<A – John Potapchuk>: And that may have been what you are referring to.

<Q – Jerry Doctrow>: And in terms of your insurance outlook, I mean that's certainly been a big issue for a number of healthcare service companies, what sort of a prospects here, I mean when do you renew or reassess and what's the outlook for insurance costs?

<A – John Potapchuk>: In terms of our various programs, worker's comp, malpractice, professional liability, etc., most of them come due on March 15, so we are in the process of negotiating that now. Let me say I am cautiously optimistic relative to the last couple of years, but we are in the process of doing that at the moment.

<Q – Jerry Doctrow>: Okay. So built into your guidance is some step up in that and you're comfortable that that's going to come out that way?

<A>: Yep.

<Q – Jerry Doctrow>: Can I ask you one – just one other insurance-related question. One of the feedback we've gotten I guess fro, some of the providers you dealt with on some of CIGNA stuff was some concern about the changes you are making like to just drop ship I think some of the drugs and stuff that people use rather than providing may be the same level of training or personal service that people had gotten before. And I understand why you are doing that – on a cost measure. Do you take on liability cost as you change those procedures on the CareCentrix side, you know, and dictate the way some of that's handled?

<A>: We don't believe that there was any material shift in liability; bear in mind that everything we have done was vetted with CIGNA's medical management team and also with other providers. And the provisions of that agreement allow for us to provide on-site technical and clinical assistance when it is needed. So and many – we believe that many of those people receiving certain pieces of equipment don't need it. But we have full flexibility within the agreement to do so where it is needed or required.

<Q – Jerry Doctrow>: Okay. And maybe this is pushing it more than I should. But if you got a situation where somebody had a problem do you take on – if you are sort of writing the standards for care, do you take on liability on the CareCentrix side potentially if somebody has a problem and they come back and they say well adequate care was not provided?

<A>: Bear in mind that we – two things, one is we are always operating, always under physician's orders and communicating with that physician. And we have, you know, we have professional liability in every – you know associated with everything that we do. I don't believe that there has been any change in that as a result of this agreement at all.

<Q – Jerry Doctrow>: Correct, okay.

<A>: I also would tell you that that where we did approach changes in distribution methodologies, we – also the manufacturers were actively involved in their recommendations for the delivery and provision of care and services as well.

<Q – Jerry Doctrow>: Okay. All right. Thanks.

<A>: Thank you.

<A>: Thanks for joining the call. I'd like to thank each of you for your participation this morning and for your continued interest in Gentiva Health. We will continue to keep you informed as we manage through this changing environment and implement our strategies for growth in 2004 and beyond. We'll all look forward to speaking with you again in April. Thank you again for joining us.

Operator: Ladies and gentlemen that concludes your conference for today. We thank you for your participation and using AT&T Executive Teleconference Service. You may now disconnect.