SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 30, 2001

Commission File No. 1-15669

GENTIVA HEALTH SERVICES, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE	36-433-5801
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

3 Huntington Quadrangle 2S, Melville, New York 11747-8943
(Address of principal executive offices) (Zip Code)

Registrant’s telephone number, including area code: (631) 501-7000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.10 per share	NASDAQ

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No _

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the registrant’s common equity (Common Stock) held by non-affiliates of the registrant as of March 25, 2002 was $559,727,545 based on the closing price of the Common Stock on The Nasdaq National Market on such date.

The number of shares outstanding of the registrant’s Common Stock, as of March 25, 2002, was 25,952,611.

Information contained in this Report, other than historical information, should be considered forward-looking and is subject to various risk factors and uncertainties. For instance, the Company’s strategies and operations involve risks of competition, changing market conditions, changes in laws and regulations affecting it and the health care industry and numerous other factors discussed in this Report and in the Company’s filings with the Securities and Exchange Commission. Accordingly, actual results may differ materially from those in any forward-looking statements.

PART I

Item 1. Business.

Introduction

Gentiva Health Services, Inc. ("Gentiva" or the "Company") became an independent publicly owned company on March 15, 2000, when all of the common stock of the Company was issued to the stockholders of Olsten Corporation, a Delaware corporation ("Olsten"), the former parent corporation of the Company (the "Split-Off"). Prior to the Split-Off, all of the assets and liabilities of Olsten's health services business (formerly known as Olsten Health Services) were transferred to the Company pursuant to a separation agreement and other agreements between Gentiva, Olsten and Adecco SA ("Adecco"). Gentiva was incorporated in the state of Delaware on August 6, 1999.

The Company operates its health services business in the United States and currently provides specialty pharmaceutical services (including infusion therapy and distribution services) and home health care services.

Significant Development

On January 2, 2002 the Company entered into an asset purchase agreement with Accredo Health, Incorporated ("Accredo") pursuant to which Accredo agreed to acquire substantially all of the assets of the Company's specialty pharmaceutical services business for a purchase price of $415 million, subject to adjustment in accordance with the asset purchase agreement. The consideration is payable to the Company half in cash and half in shares of Accredo common stock. The sale of the specialty pharmaceutical services business is conditioned upon, among other things, the approval of the shareholders of each company and other customary conditions. Completion of the transaction is expected in the second quarter of 2002. It is currently expected that following the sale of the specialty pharmaceutical business, the Company will distribute substantially all of the proceeds to its shareholders.

Specialty Pharmaceutical Services

The Company's specialty pharmaceutical services business is coordinated through its network of 40 pharmacies across the United States and generally includes:

- the distribution of drugs and other biological and pharmaceutical products and professional support services for individuals with chronic diseases, such as hemophilia, primary pulmonary hypertension, autoimmune deficiencies and growth disorders;
- the administration of antibiotics, chemotherapy, nutrients and other medications for patients with acute or episodic disease states;
- marketing and distribution services for pharmaceutical, biotechnology and medical service firms; and
- clinical support services for pharmaceutical and biotechnology firms.

The specialty pharmaceutical services business provides a wide range of home infusion therapies. Home infusion therapy involves the administration of medications intravenously (into veins), subcutaneously (under the skin), intramuscularly (into muscle), intraecally or epidurally (via spinal routes) or through feeding tubes into the digestive tract. Infusion therapy often begins during hospitalization of a patient and continues in the home environment.

The Company's specialty pharmaceutical services business also addresses therapeutic, socioeconomic, psychosocial and professional support needs for individuals with rare, chronic diseases including hemophilia, primary pulmonary hypertension, immunodeficiency/autoimmune disorders and growth disorders.

Some of the Company's other significant specialty pharmaceutical services also include:

- Antibiotic therapies, which are the infusion of antibiotic medications into a patient's bloodstream. These medications are typically used to treat a variety of serious infections and diseases.

- Total Parenteral Nutrition (TPN), which is the long-term provision of nutrients for patients with chronic gastrointestinal conditions. These nutrients are infused through surgically implanted central vein catheters or through peripherally inserted central catheters. Enteral nutrition is the infusion of nutrients through a feeding tube inserted directly into a patient's digestive tract. This long-term therapy is prescribed for patients who are unable to eat and drink normally.

- Chemotherapy, which is the infusion of drugs in a patient's bloodstream to treat various forms of cancer.

- Pain management, which involves the infusion of certain drugs into the bloodstream of patients suffering from acute or chronic pain.

- Wholesale distribution of various pharmaceutical products.

Home Health Care Services

The Company's home health care services business is conducted through more than 275 locations and delivers a wide range of services principally through its Nursing and CareCentrix business units.

The Company's nursing unit operates licensed and Medicare-certified nursing agencies located in 35 states, of which 97% are accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO). These branches provide various combinations of skilled nursing and therapy services, paraprofessional nursing services and homemaker services to pediatric, adult and mature adult patients. Reimbursement sources for this unit include government programs, including Medicare and Medicaid as well as other state and county programs, and private sources including health insurance plans, managed care organizations, long term care insurance plans and personal funds. The Company's nursing unit is organized in five geographic regions, each staffed with a clinical, operational and sales management team. Regions are further separated into operating areas. Each area is comprised of branches, each of which is led by an agency director and staffed with clinical and administrative support staff as well as associates who deliver direct patient care. The caregivers are employed on either a full-time basis or are paid on a per visit or per diem basis.

The Company's CareCentrix unit provides an array of outsourcing services and coordinates the delivery of home nursing services, acute and chronic infusion therapies and durable medical equipment for managed care organizations and health plans. These services are delivered through an extensive nationwide network of credentialed providers which also includes the Company's nursing unit. CareCentrix accepts case referrals from a wide variety of sources, verifies eligibility and benefits and transfers case requirements to credentialed providers for service to the patient. The unit provides services to its customers, including the fulfillment of case requirements, case management, provider credentialing, eligibility and benefits verification, data reporting and analysis, and coordinated centralized billing for all authorized services provided to the customer's enrollees.

Contracts within the CareCentrix unit are structured as fee-for-service, whereby a payor is billed on a per usage basis for various services, and at-risk capitation, whereby the payor is billed on the basis of projected usage per member per month, subject to certain limitations.

The Company's home health care services business also delivers services to its customers through smaller business units that include Rehab Without Walls, a unit providing rehabilitation services for patients with brain or spinal cord injuries or disease, and Gentiva Business Services, a unit providing software, billing, management and consulting services to other home health agencies.

Payors

In fiscal years 2001, 2000 and 1999, approximately 61 percent, 63 percent and 64 percent, respectively, of the Company's revenues were attributable to commercial pay sources, 21 percent, 21 percent and 20 percent, respectively, of the Company's revenues were attributable to Medicaid reimbursement, state reimbursed programs and other state/county funding programs, and 18 percent, 16 percent and 16 percent, respectively, of the Company's revenues were attributable to Medicare reimbursement. In fiscal years 2001, 2000 and 1999, Cigna Healthcare accounted for approximately 19 percent, 15 percent and 11 percent, respectively, of revenues. The Company has renewed its contract with Cigna Healthcare for the seventh consecutive year, with the current contract expiring on December 31, 2003, with an option to renew. No other payor accounts for 10 percent or more of the Company's revenues. The revenues from commercial payors are primarily generated under fee for service contracts which are traditionally one year in term and renewable automatically on an annual basis, unless terminated by either party. For fiscal years 2000 and 1999, revenues include revenues from health care staffing services business and Canadian operations, both of which were sold in the fourth quarter of fiscal 2000.

Source and Availability of Personnel

Specialty pharmaceutical services. Employees are generally full-time, salaried personnel and include licensed professionals, such as pharmacists and nurses. Employees are recruited through various means, including advertising in local and national media, job fairs and solicitations on web sites. Currently, the specialty pharmaceutical services industry, as a whole, is experiencing some shortage of pharmacists.

Home health care services. To maximize the cost effectiveness and productivity of caregivers, the Company utilizes customized systems and procedures that have been developed and refined over the years. Personalized matching to recruit and select applicants who fit the patients' individual needs is achieved through initial applicant profiles, personal interviews, skill evaluations and background and reference checks. Caregivers are recruited through a variety of sources, including advertising in local and national media, job fairs, solicitations on web sites, direct mail and telephone solicitations, as well as referrals obtained directly from clients and other caregivers. Caregivers are generally paid on a per visit or per diem basis, or are employed on a full-time salaried basis. The Company also employs caregivers who are paid on an hourly basis for time actually worked. In certain areas of the United States, the Company, along with its competitors, is currently experiencing a shortage of licensed professionals. A continued shortage of professionals could have a material adverse effect on the Company's business.

Trademarks

The Company has various trademarks registered with the U.S. Patent and Trademark Office, including REHAB WITHOUT WALLS(R), CHRONICARE(R) and A.C.C.E.S.S.(R) or in the process of being registered with the U.S. Patent and Trademark Office, including CARECENTRIX(SM), CARE YOU CAN COUNT ON(SM) and GENTIVA(SM).

Business Environment

Specialty pharmaceutical services. The specialty pharmaceutical services industry has been and continues to be fueled by significant developments of new drugs and therapies by biotechnology and pharmaceutical manufacturers. Many of these drugs and therapies require specialized storage, distribution and handling by specialty pharmaceutical services companies. In addition, the complexity of these therapies often requires properly trained nurses and pharmacists to administer and monitor the therapies for the patients.

Home health care services. Factors that the Company believes have contributed and will contribute to the development of home health care in particular include recognition that home health care can be a cost-effective alternative to lengthy, more expensive institutional care; an aging population; increasing consumer awareness and interest in home health care; the psychological benefits of recuperating from an illness or accident in one's own home; and advanced technology that allows more health care procedures to be provided at home.

The Company is actively pursuing relationships with managed care organizations. The Company believes that its nationwide office network, financial resources and the quality, range and cost-effectiveness of its services are important factors as it seeks opportunities in its managed care relationships in a consolidating home health care industry. In addition, the Company believes that it has the local relationships, the knowledge of the regional markets in which it operates, and the cost-effective, comprehensive services and products required to compete effectively for managed care contracts and other referrals. The Company offers the direct and managed provision of care as a single source, thereby optimizing utilization.

Marketing and Sales

Specialty pharmaceutical services. The Company has sought to grow its specialty pharmaceutical services through a business development team which is responsible for tracking new biological drugs and negotiating distribution arrangements for those drugs. The Company has also supported its sales efforts of pharmaceuticals with sales representatives who market the Company's services directly to hospitals, physician groups and managed care.

Home health care services. In general, the Company obtains clients through personal and corporate sales presentations, telephone marketing calls, direct mail solicitation, referrals from other clients and advertising in a variety of local and national media, including the Yellow Pages, newspapers, magazines, trade publications and radio. The Company also maintains an Internet web site (www.gentiva.com) that describes the Company, its services and products. Marketing efforts also involve personal contact with case managers for managed health care programs, such as those involving health maintenance organizations and preferred provider organizations, insurance company representatives and employers with self-funded employee health benefit programs. The Company does not seek reimbursement from government payors for unallowable marketing and sales expenses.

The Company believes that its success in furnishing caregivers is based, among other factors, on its reputation for quality and local market expertise combined with the resources of an extensive office network. The Company also empowers its branch directors with a high level of responsibility, providing incentives to manage the business effectively at the local level, one of the central ingredients in a business where relationships are vital to success.

Competitive Position

Specialty pharmaceutical services. The specialty pharmaceutical services business is highly competitive. Companies engaged in this business include national chain pharmacies, mail order pharmacies, hospital-

based pharmacies and specialty pharmaceutical distributors. The Company's primary national competitors are Caremark RX, Inc. (CTS), Accredo and Priority Healthcare Corporation. Based on the Global Equity Research report on the Biotech Pharmacy Industry prepared by Warburg Dillon Read in 2000, the Company believes that its specialty pharmaceutical services business currently has approximately an 11% market share in the specialty pharmaceutical services industry. Competition is based on quality of care and service offerings, as well as upon patient and referral source relationships, price and reputation.

Home health care services. The segments of the home health care industry in which the Company operates are also highly competitive and fragmented. Home health care nursing providers range from facility-based (hospital, nursing home, rehabilitation facility, government agency) agencies to independent companies to visiting nurse associations and nurse registries. They can be not-for-profit organizations or for-profit organizations. In addition, there are relatively few barriers to entry in some segments of the home health care market in which the Company operates. The Company's primary competitors for its home health care nursing services business are hospital-based home health agencies, local home health agencies, and visiting nurse associations. Based on information contained in the Health Care Financing Administration website, a government website containing information on the home health care market in 2000, the Company believes its home health care business holds approximately a 2% to 3% market share. The Company competes with other home health care providers on the basis of availability of personnel, quality and expertise of services and the value and price of services. The Company believes that it has a favorable competitive position, attributable mainly to its widespread office network and the consistently high quality and targeted services it has provided over the years to its patients, as well as to its screening and evaluation procedures and training programs for caregivers.

The Company expects that industry forces will impact it and its competitors. The Company's competitors will likely strive to improve their service offerings and price competitiveness. The Company also expects its competitors to develop new strategic relationships with providers, referral sources and payors, which could result in increased competition. The introduction of new and enhanced services, acquisitions and industry consolidation and the development of strategic relationships by the Company's competitors could cause a decline in sales or loss of market acceptance of the Company's services or price competition, or make the Company's services less attractive.

Number of Persons Employed

At December 30, 2001, the Company had approximately 4,400 full-time administrative staff, including 1,500 full-time administrative staff employed in the specialty pharmaceutical services business. In addition, the Company had approximately 500 full-time caregivers, including 90 employed in the specialty pharmaceutical services business. The Company also employs caregivers on a temporary basis, as needed, to provide home health care services. In fiscal 2001, the average number of temporary caregivers employed on a weekly basis was approximately 12,000. The Company believes that its relationships with its employees are generally good.

The Company believes that it maintains insurance coverages that are adequate for the purpose of its business.

For a discussion of certain regulations to which the Company's business is subject, see "Regulations" under Item 3, PART I below.

Selected financial information relating to the Company's industry segments is found in Note 14 of Notes to Consolidated Financial Statements of the Company and its subsidiaries, which are included in this Report.

Item 2. Properties.

The Company headquarters is leased and is located at 3 Huntington Quadrangle 2S, Melville, New York 11747-8943. Other major regional administrative offices leased by the Company are located in Overland Park, Kansas and Tampa, Florida. The Company also maintains leases for other offices and locations on various terms expiring on various dates.

Item 3. Legal Proceedings.

Litigation

In addition to the matters referenced in this Item 3, the Company is party to certain legal actions arising in the ordinary course of business including legal actions arising out of services rendered by its various operations, personal injury and employment disputes.

On November 22, 2000, the jury, in an age-discrimination lawsuit commenced in 1998, captioned Fredrickson v. Olsten Health Services Corp. and Olsten Corporation, Case No. 98 CV 1937, Court of Common Pleas, Mahoning County, Ohio (the "Fredrickson Lawsuit"), returned a verdict in favor of the plaintiff against Olsten consisting of $675,000 in compensatory damages, $30 million in punitive damages and an undetermined amount of attorneys' fees. The jury found that, although Olsten had lawfully terminated the plaintiff's employment, its failure to transfer or rehire the plaintiff rendered Olsten liable to the plaintiff. The parties filed several post-trial motions, and following a March 23, 2001 hearing on the parties' respective post trial motions, the trial court, on May 17, 2001, denied all post-trial motions, and entered judgment for the plaintiff for the full amount of compensatory and punitive damages, and awarded the plaintiff reduced attorney's fees of $247,938. On June 14, 2001, defendants timely filed a notice of appeal with the Court of Appeals, Seventh Appellate District, Mahoning County, Ohio and on June 19, 2001, the Company posted a supersedeas bond for the full amount of the judgment, plus interest. On October 12, 2001, the Company timely filed its appellate brief with the Court of Appeals. Plaintiff filed its response brief on January 14, 2002, and defendants' reply brief was filed on February 8, 2002. Oral arguments have not been scheduled yet. The Company intends to defend itself vigorously in this matter.

On January 2, 2002, Cooper v. Gentiva CareCentrix, Inc. t/a/d/b/a/ Gentiva Health Services, U.S. District Court (W.D. Penn), Civil Action No. 01-0508, an amended complaint was served on the Company alleging that the defendant submitted false claims to the government for payment in violation of the Federal False Claims Act and that the defendant had wrongfully terminated the plaintiff. The plaintiff claimed that infusion pumps delivered to patients did not supply the full amount of medication, allegedly resulting in substandard care and overbilling to the government. Based on a review of the court's docket sheet, the plaintiff filed a complaint under seal in March 2001. In October 2001, the United States Government filed a notice with the court declining to intervene in this matter, and on October 24, 2001, the court ordered that the seal be lifted. Plaintiff filed a motion to amend complaint on December 27, 2001 and served the complaint that same day. Defendant's answer and counterclaim were filed on February 25, 2002. The Company has denied the allegations of wrongdoing in the complaint and intends to defend itself vigorously in this matter. Given the preliminary stage of this litigation, the Company is unable to assess the probable outcome or potential liability, if any, arising from this matter; therefore, a range of damages, if any, cannot be determined.

On November 1, 2001, the Company received notice of the entry of an Order dated October 25, 2001, unsealing a complaint in an action captioned United States of America ex rel. Lee Einer v. Olsten Corporation, No. CIV-S-99-0860 DFL/DAD filed with the U.S. District Court for the Eastern District of California. This civil action was brought pursuant to the False Claims Act. The original sealed complaint was filed in April 1999 and alleged that Olsten falsely took into income during the conversion of its financial data systems alleged overpayments due to payors. In November 2000, plaintiff filed an amended complaint adding the allegation that

Olsten made false representations to the United States government in connection with a settlement agreement entered into in July 1999. The Company acknowledged service of the amended complaint on November 29, 2001 and filed its answer and counterclaim on December 3, 2001. Plaintiff filed his reply to counterclaim, counterclaim against the Company and cross claim against the United States government on January 18, 2002. The Company's answer was filed on February 12, 2002. The Company believes that it was the filing of the original complaint that triggered the December 1999 document subpoena from the Department of Health and Human Services, Office of Inspector General, which is discussed below under "Government Investigations." Given the preliminary stage of this litigation, the Company is unable to assess the probable outcome or potential liability, if any, arising from this matter; therefore, a range of damages, if any, cannot be determined.

On January 14, 1999, Kimberly Home Health Care, Inc. ("Kimberly"), one of the Company's subsidiaries, initiated three arbitration proceedings against hospitals owned by Columbia/HCA Healthcare Corp. ("Columbia/HCA") with which Kimberly had management services agreements to provide services to the hospitals' home health agencies. The basis for each of the arbitrations is that Columbia/ HCA sold the home health agencies without assigning the management services agreements and, as a result, Columbia/HCA has breached the management services agreements. In response to the arbitrations, Columbia/HCA has asserted that the arbitrations be consolidated and stayed, in part based upon its alleged claims against Kimberly for breach of contract, and requested indemnity and possibly return of management fees. Columbia/HCA has not yet formally presented these claims in the arbitrations or other legal proceedings and has not yet quantified the claims. Still pending before the arbitrators is Columbia/HCA's request to consolidate the proceedings, which Kimberly has opposed. The proceedings are currently in abeyance pending ruling on Columbia/HCA's motion to consolidate. The Company is the claimant in this matter and the defendant has not formally asserted any counterclaims against the Company in the arbitration, nor has the defendant made any formal demand on the Company. The Company is unable to assess the liability or losses, if any, attributable to the threatened counterclaims.

On June 23, 2000, the Company was served with a complaint in a purported class action lawsuit filed by Ultimate Home Health Care Inc. in the U.S. District Court for the Middle District of Tennessee, captioned Ultimate Home Health Care, Inc. v. Columbia/HCA Healthcare Corp., No. 3-00-0560, (the "Tennessee Lawsuit"). On July 21, 2000, the Company was served with an amended complaint in the Tennessee Lawsuit, which named as defendants Columbia/HCA, Columbia Homecare Group, Olsten Health Management a/k/a Hospital Contract Management Services and Olsten Corporation. The amended complaint alleged, among other things, that the defendants' business practices in connection with home health care patient referrals between 1994 and 1996 violated provisions of Federal antitrust laws, the Racketeer Influenced and Corrupt Organizations Act (RICO), the Tennessee Consumer Protection Act and state common law and sought unspecified compensatory damages, punitive damages, treble damages and attorneys' fees on behalf of a proposed class of home healthcare companies and/or agencies which conducted business in Tennessee, Texas, Florida and/or Georgia. By an order dated January 21, 2001, the Court ruled on defendants' motion to dismiss and dismissed plaintiffs' RICO and state common law tort claims, but allowed plaintiff's other claims to proceed to discovery. After conducting some discovery on the issues, on October 10, 2001 plaintiff filed a notice of withdrawal of certain allegations and subsequently filed a second amended complaint that dropped all class action allegations and all antitrust claims. On December 6, 2001 the parties stipulated to the dismissal of the action with each party to bear its own costs, and on December 13, 2001, the court entered an order dismissing the suit in its entirety.

Furthermore, in connection with the Split-Off, the Company agreed to assume, to the extent permitted by law, the liabilities, if any, arising out of (and to indemnify Olsten for) the above lawsuits and arbitration proceedings and other liabilities arising out of the health services business, including any such liabilities arising after the Split-Off in connection with the government investigations described below. In addition, in connection with the sale of the specialty pharmaceutical services business, the Company has agreed to retain and indemnify Accredo for specified liabilities including the litigation described above and the government investigations described below.

Government Investigations

In early December 1999, Olsten received a document subpoena from the Department of Health and Human Services, Office of Inspector General, and Office of Investigations. After preliminary discussions with the Office of Inspector General, the Company believes the subpoena relates to an investigation of possible overpayments to it by the Medicare program. The Company provided the Office of Inspector General and other government agencies with requested documents and cooperated fully with this investigation. On November 1, 2001, the Company received notice of the entry of an Order dated October 25, 2001, unsealing a complaint in an action captioned United States of America ex rel. Lee Einer v. Olsten Corporation, which is discussed above under "Litigation." In connection with the unsealing of the complaint, and as recited in the Order unsealing the complaint, the United States gave notice to the District Court that the United States was declining to intervene in the action. The Company believes that it was this complaint that gave rise to the December 1999 document subpoena, and that following an almost two year investigation into the allegations made in the complaint, the United States decided not to intervene and not to proceed with this action. The Company believes that the government has concluded its investigation into this matter.

In early February 2000, the Company received a document subpoena from the Department of Health and Human Services, Office of Inspector General, and Office of Investigations. The Company believes the subpoena relates to its agencies' cost reporting procedures concerning contracted nursing and home health aide costs. To the Company's knowledge, the government has not filed a complaint against the Company, nor has the government quantified the amount of alleged damages relating to this matter. Recently, the government has asserted that this matter could fall under the Federal False Claims Act (the "Act"), and if liability is found under the Act, the government would be able to assess double or treble damages against the Company. The Company disputes the government's assertions, but continues to cooperate with the government in its investigation of this matter and to provide the government with the requested documents. At this time, the Company is unable to assess the probable outcome or potential liability, if any, arising from this subpoena.

In October 1998, in connection with its settlement of a government investigation into the health care practices of Quantum Health Resources (a subsidiary of the Company) for a period prior to 1997, Olsten executed a corporate integrity agreement with the U.S. Department of Justice, the Office of Inspector General of the U.S. Department of Health and Human Services, the U.S. Secretary of Defense (for the CHAMPUS/Tricare Program) and the Attorneys General for the States of New York and Oklahoma. The October 1998 corporate integrity agreement applied to the Company's specialty pharmaceutical services business and focused on the training and billing of blood factor products for hemophiliacs and was in effect until December 31, 2001. On February 12, 2002, the Company filed its final report required by the 1998 corporate integrity agreement.

In connection with the July 19, 1999 settlement with various government agencies, Olsten executed a separate corporate integrity agreement with the Office of Inspector General of the Department of Health and Human Services which will remain in effect until August 18, 2004. The July 1999 corporate integrity agreement applies to the Company's businesses that bill the federal government health programs directly for services, such as its home care nursing business (but excluding the specialty pharmaceutical services business). This corporate integrity agreement focuses on issues and training related to cost report preparation, contracting, medical necessity and billing of claims.

Under each of the corporate integrity agreements, the Company is required, for example, to maintain a corporate compliance officer to develop and implement compliance programs, to retain an independent review organization to perform annual reviews and to maintain a compliance program and reporting systems, as well as provide certain training to employees.

The Company's compliance program will be implemented for all newly established or acquired business units if their type of business is covered by the corporate integrity agreements. Reports under each integrity

agreement are to be filed annually with the Department of Health and Human Services, Office of Inspector General. After each corporate integrity agreement expires, the Company is to file a final annual report with the government. The Company is in compliance with both corporate integrity agreements and has timely filed all required reports. If the Company fails to comply with the terms of either of its corporate integrity agreements, the Company will be subject to penalties.

Regulations

The Company's business is subject to extensive federal and state regulations which govern, among other things:

∉ Medicare, Medicaid, TRICARE and other government-funded reimbursement programs;

∉ reporting requirements, certification and licensing standards for pharmacies and certain home health agencies; and

∉ in some cases, certificate-of-need requirements.

The Company's compliance with these regulations may affect its participation in Medicare, Medicaid, TRICARE and other federal health care programs. The Company is also subject to a variety of federal and state regulations which prohibit fraud and abuse in the delivery of health care services. These regulations include, among other things:

∉ prohibitions against the offering or making of direct or indirect payments to actual or potential referral sources for obtaining or influencing patient referrals;

∉ rules against physicians making referrals under Medicare for clinical services to a home health agency with which the physician has certain types of financial relationships;

∉ laws against the filing of false claims; and

∉ laws against making payment or offering items of value to patients to induce their self-referral to the provider.

As part of the extensive federal and state regulation of the home health care business and under the Company's corporate integrity agreements, the Company is subject to periodic audits, examinations and investigations conducted by, or at the direction of, governmental investigatory and oversight agencies. Periodic and random audits conducted or directed by these agencies could result in a delay in receipt, or an adjustment to the amounts of reimbursements due or received under Medicare, Medicaid, TRICARE and other federal health programs. Violation of the applicable federal and state health care regulations can result in excluding a health care provider from participating in the Medicare, Medicaid and/or TRICARE programs and can subject the provider to substantial civil and/or criminal penalties.

The Balanced Budget Act of 1997 provided for, among other things, a 15 percent reduction in home health interim payment system limits. The implementation of this reduction in the payment caps has been delayed until October 1, 2002. The Center for Medicare and Medicaid Services currently estimates that the reduction in payment caps, if implemented, may reduce payments to home health agencies for services provided under the Medicare program by approximately 7 percent.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2001.

Item 4(a). Executive Officers of the Company.

The following table sets forth certain information regarding each of the Company's executive officers as of March 25, 2002:

Name	Executive Officer Since	Age	Position and Offices with the Company
Edward A. Blechschmidt	1999	49	President, Chief Executive Officer and Chairman of the Board of Directors
John J. Collura	1999	55	Executive Vice President, Chief Financial Officer and Treasurer
Ronald A. Malone	2000	47	Executive Vice President and President, Home Health Care Services Division
Robert J. Nixon	1999	45	Executive Vice President and President, Specialty Pharmaceutical Services Division
Richard C. Christmas	1999	47	Senior Vice President and Chief Information Officer
E. Rodney Hornbake, M.D.	2000	51	Senior Vice President and Chief Medical Officer
Patricia C. Ma	1999	40	Senior Vice President, General Counsel and Secretary
Vernon A. Perry	1999	50	Senior Vice President - Nursing Services
David C. Silver	2000	59	Senior Vice President - Human Resources
Christopher L. Anderson	2001	30	Vice President and Chief Compliance Officer
John R. Potapchuk	2001	49	Vice President and Controller

The executive officers are elected annually by the Board of Directors.

Edward A. Blechschmidt

Mr. Blechschmidt has served as president, chief executive officer and chairman of the board of directors of the Company since November 1999. He served as the chief executive officer and a director of Olsten from February 1999 until March 2000. He was also the president of Olsten from October 1998 until March 2000 and served as the chief operating officer of Olsten from October 1998 to February 1999. From August 1996 to October 1998 he was president and chief executive officer of Siemens Nixdorf Americas, an information technology company.

John J. Collura

Mr. Collura has served as the executive vice president, chief financial officer and treasurer of the Company since November 1999. He served as senior vice president and chief financial officer of Olsten Health Services from 1998 to March 2000. From 1996 to 1998, Mr. Collura was corporate director of financial and business development operations of Partners Healthcare, an integrated health care delivery system.

Ronald A. Malone

Mr. Malone has served as executive vice president of the Company since March 2000. Prior to joining the Company, he served in various positions with Olsten, including executive vice president of Olsten and president, Olsten Staffing Services, United States and Canada, from January 1999 to March 2000. From 1994 to December 1998, he served successively as Olsten's senior vice president, southeast division; senior vice president, operations; and executive vice president, operations.

Robert J. Nixon

Mr. Nixon has served as executive vice president of the Company since November 1999. He had been a member of Olsten Health Services' senior management team since joining Olsten in 1994, serving in various capacities, including as a senior vice president.

Richard C. Christmas

Mr. Christmas has served as senior vice president of the Company since November 1999. He joined Olsten in 1992 and has served as regional director, area vice president and project manager-vice president for a business and technology reengineering project for Olsten.

E. Rodney Hornbake, M.D.

Dr. Hornbake has served as senior vice president and chief medical officer of the Company since March 2000, having joined the Company in November 1999. Prior to that, Dr. Hornbake served as vice president and medical director of the North Shore-LIJ Health System in New York. Prior to that, Dr. Hornbake was chief medical officer for Aetna Professional Management Corporation and chief of medicine for the Park Ridge Health System in New York.

Patricia C. Ma

Ms. Ma has served as the Company's senior vice president, general counsel and secretary since November 1999. She joined Olsten in 1994. Since 1998 she served as general counsel and vice president of Olsten Health Services. From 1994 to 1998, Ms. Ma served in various legal positions with Olsten Health Services, including vice president, assistant general counsel, assistant vice president and senior counsel.

Vernon A. Perry, Jr.

Mr. Perry has served as senior vice president of the Company since November 1999. He joined Olsten in 1994. From 1996 to 1999, he served as senior vice president of network management for Olsten Health Services. From 1994 to 1996, he served as vice president of business development, primarily responsible for the health services business development.

David C. Silver

Mr. Silver has served as senior vice president of the Company since March 2000. He joined Olsten in 1998 as director, human resources planning and development and in April 1999 became vice president, human resources for Olsten's staffing services business. Prior to joining Olsten he held senior Human Resources positions with the Bank of Tokyo, Supermarkets General Corporation, Chase Manhattan Bank and Amerada Hess. From 1989 to 1998 he served as president of a human resources consulting firm delivering organizational change, leadership development and general human resources consulting services.

Christopher L. Anderson

Mr. Anderson has served as the chief compliance officer and vice president of audit services and quality assurance of the Company since March 2000. He served as chief compliance officer of Olsten from November 1998 to March 2000. From 1996 to 1998, Mr. Anderson was vice president of compliance and government affairs of Housecall Medical Resources, Inc., a home care service company.

John R. Potapchuk

Mr. Potapchuk has served as vice president of finance and controller of the Company since March 2000. He joined Olsten in 1991 and served in various corporate financial management positions with Olsten Health Services, including vice president and operations controller and vice president of finance. Prior to that, Mr. Potapchuk served in senior management positions for PricewaterhouseCoopers LLP and Deloitte & Touche.

After the sale of the specialty pharmaceutical services business or shortly thereafter, upon election by the Company's board of directors, the following individuals will serve as officers of the Company: Mr. Ronald A. Malone, chief executive officer and chairman of the board of directors; Mr. John R. Potapchuk, chief financial officer, treasurer and secretary; Mr. Vernon A. Perry, Jr., president and chief operating officer; and Mr. Christopher L. Anderson, chief compliance officer. After such sale or shortly thereafter, it is further expected that the following individuals will no longer be employed as officers of the Company: Messrs Edward A. Blechschmidt, John J. Collura, Robert J. Nixon, Richard C. Christmas, E. Rodney Hornbake and David C. Silver and Ms. Patricia C. Ma.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Market Information

As of March 16, 2000, the Company's common stock has been quoted on The Nasdaq National Market under the symbol "GTIV". Prior thereto, there was no established public trading market for shares of the Company's common stock.

The following table sets forth the high and low bid information for shares of the Company's common stock for each quarter during fiscal 2000 and 2001:

2000	High	Low
1st Quarter (beginning March 16)	$ 7.25	$ 5.25
2nd Quarter	10.00	6.19
3rd Quarter	14.00	7.63
4th Quarter	14.38	10.19
2001	**High**	**Low**
1st Quarter	$20.38	$13.06
2nd Quarter	23.50	15.60
3rd Quarter	20.90	16.35
4th Quarter	22.44	15.66

Holders

As of March 25, 2002 there were approximately 2,100 holders of record of the Company's common stock (including participants in the Company's employee stock purchase plan, brokerage firms holding the Company's common stock in "street name" and other nominees).

Dividends

The Company has never paid any cash dividends on its common stock. The Company does not expect to pay any dividends on its common stock for the foreseeable future, except it is currently expected that following the sale of the Company's specialty pharmaceutical services business, the Company will distribute substantially all the proceeds from such sale to its shareholders. Any future payments of dividends and the amount of the dividends will be determined by the board of directors from time to time based on the Company's results of operations, financial condition, cash requirements, future prospects and other factors deemed relevant by the Company's board of directors. In addition, the Company's credit facility also contains restrictions on the Company's ability to declare and pay dividends. See Item 7, PART II.

Item 6. Selected Financial Data.

The following table provides selected historical consolidated financial data of the Company as of and for each of the fiscal years in the five-year period ended December 30, 2001. The data has been derived from the Company's audited consolidated financial statements. The historical consolidated financial information presents the Company's results of operations and financial position as if the Company was a separate entity from Olsten for all years presented. The historical financial information may not be indicative of the Company's future performance and may not necessarily reflect what the financial position and results of operations of the Company would have been if the Company was a separate stand-alone entity during the years presented.

	Fiscal Year Ended				
	2001	**2000**	**1999**	**1998**	**1997**
				(53 weeks)	
Statement of Operations Data	(In thousands except per share amount)				
Net revenues	$ 1,377,687	$ 1,506,644	$ 1,489,822	$ 1,330,303	$ 1,433,854
Gross profit	459,079	485,000	505,426	421,407	520,586
Selling, general and administrative expenses	436,065	615,198	509,658	552,528	460,254
Net income (loss)	20,988(1)	(104,200)(2)	(15,086)(3)	(101,465)(4)	26,847
Net income (loss) per share (5)					
Basic	0.91	(5.05)	(0.74)	(4.99)	1.32
Diluted	0.85	(5.05)	(0.74)	(4.99)	1.32
Average shares outstanding (5)					
Basic	23,186	20,637	20,345	20,345	20,345
Diluted	25,869	20,637	20,345	20,345	20,345
Balance Sheet Data (at end of year)					
Cash and cash equivalents	$ 71,999	$ 452	$ 2,942	$ 799	$ —
Restricted cash	35,164	—	—	—	—
Working capital	401,201	348,684	438,536	367,915	346,135
Total assets	838,334	805,484	1,063,105	945,738	783,478
Long-term debt and other securities	—	20,000	—	86,250	86,250
Tangible net worth (6)	401,166	335,447	454,994	305,743	295,707
Shareholders' equity	621,707	566,149	705,291	561,859	530,270

(1) Net income in fiscal 2001 reflects special charges of approximately $3.0 million in connection with the settlement of the Gile v. Olsten Corporation, et al. and the State of Indiana v. Quantum Health Resources, Inc. and Olsten Health Services, Inc. lawsuits and for various other legal costs. See Note 4 to the Company's Consolidated Financial Statements.

(2) Net loss for fiscal 2000 reflects restructuring and other special charges aggregating $153.2 million, of which $14.9 million is recorded in cost of services sold and $138.3 million is included in selling, general and administrative expenses. See Note 4 to the Company's Consolidated Financial Statements. Net loss for fiscal 2000 also reflects a gain of $36.7 million relating to the sale of the Company's staffing services business and Canadian operations. See Note 3 to the Company's Consolidated Financial Statements.

(3) Net loss for fiscal 1999 reflects a restructuring pre-tax charge of $15.2 million for the realignment of business units as part of a new restructuring plan. This charge is included in selling, general and administrative expenses. See Note 4 to the Company's Consolidated Financial Statements.

(4) Net loss in fiscal 1998 reflects restructuring and other special pre-tax charges totaling approximately $122 million. These charges resulted from $66 million related to the restructuring of the Company's businesses and a special charge of $56 million for the settlement of two federal investigations. These provisions include a reduction in revenues of $14 million, a charge to cost of sales of $15 million and $93 million in selling, general and administrative expenses.

(5) Basic and diluted earnings per share and the average shares outstanding for each of the fiscal years 1997, 1998 and 1999 have been computed based on 20,345,029 shares of common stock. Such amount is based on the number of shares of the Company's common stock issued on March 15, 2000, the date of the split-off. See Note 2 to the Company's Consolidated Financial Statements.

(6) Tangible net worth represents the amount of shareholders' equity reduced by intangibles, principally goodwill, net of accumulated amortization.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the Company's results of operations and financial position. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements and related notes included elsewhere in this report.

Significant Developments

On January 2, 2002, the Company entered into a definitive agreement with Accredo Health, Incorporated ("Accredo") to sell the assets and business of the Company's Specialty Pharmaceutical Services business, including certain corporate assets and operations, for $415 million, subject to adjustment, to be paid half in cash and half in shares of Accredo common stock provided that the average closing price per share of Accredo common stock on the NASDAQ National Market for the twenty trading days ending on the second trading day prior to the closing of the acquisition is between $31 and $41 per share. If the average closing price is outside of these limits, the number of Accredo shares to be issued will be fixed at the outside levels, and the value of the stock consideration will fluctuate, increasing if the average closing price is above $41 and decreasing if the average closing price is below $31. The purchase price of $415 million is also subject to adjustment for changes in the net book value of the Specialty Pharmaceutical Services business as of the closing date of the acquisition, to the extent that such net book value is outside of the range between $247.5 million and $252.5 million. (At December 30, 2001, the net book value of the Specialty Pharmaceutical Services business was within such range.)

The Company intends to distribute substantially all of the consideration it receives in connection with the sale of the Specialty Pharmaceutical Services business to its shareholders following the closing of the transaction. Management expects that the disposition will be consummated during the second quarter of 2002 and that a gain will be recorded on the disposition.

The Specialty Pharmaceutical Services business will be treated as a discontinued operation following the date on which shareholders approve the transaction. Subsequent to the closing date of the transaction, the Company intends to operate in the Home Health Services business.

Year Ended December 30, 2001 Compared to Year Ended December 31, 2000

General

The comparability of the Company's results of operations between fiscal year 2001 and fiscal year 2000 was impacted by several items which are briefly described below.

- On March 15, 2000, the Company was Split-off from Olsten Corporation ("Olsten") through the issuance of all of the Company's common stock to Olsten's shareholders and the Company became an independent, publicly-owned company. Prior thereto, the Company operated Olsten's health services business as a wholly-owned subsidiary of Olsten. The accom-

panying consolidated financial statements reflect the financial position, results of operations and cash flows of the Company as if it were a separate entity for all periods presented. The consolidated financial statements have been prepared using the historical basis of assets and liabilities and historical results of operations related to the Company.

∉ During fiscal year 2001, the Company recorded special charges of approximately $3.0 million in connection with the settlement of the Gile v. Olsten Corporation, et al., and the State of Indiana v. Quantum Health Resources, Inc. and Olsten Health Services, Inc. lawsuits and for various other legal costs. These legal matters are further discussed in Note 9. These special charges are reflected in selling, general and administrative expenses in the accompanying consolidated statement of operations.

∉ During the fiscal year 2000, the Company recorded restructuring and special charges aggregating $153.2 million. Of this amount, charges of $138.3 million were reflected in selling, general and administrative expenses. These charges included (i) an incremental provision for doubtful accounts of $112.0 million, (ii) a $7.2 million charge to reflect estimated settlement costs in excess of insurance coverage related to class action securities and derivative lawsuits assumed by the Company from Olsten Corporation under an indemnification provision in connection with the Split-off and government inquiries in New Mexico and North Carolina, (iii) a $5.7 million charge in connection with the implementation of and transition to the PPS system for Medicare reimbursement and (iv) restructuring charges of $5.5 million relating to the closing and consolidation of twelve nursing branch locations and the realignment and consolidation of certain corporate and administrative support functions.

In addition, special charges of $3.8 million for the fiscal year 2000 were incurred in connection with the change of the Company's name to Gentiva Health Services, Inc. These special charges primarily consisted of costs incurred and paid for consulting fees, promotional items and advertising.

Furthermore, charges of $4.1 million were incurred in the fiscal year 2000 to reflect obligations resulting from the Company's Split-off from Olsten and transition costs associated with the establishment of the Company as an independent, publicly-owned entity. These special charges included change of control and compensation and benefit payments of $3.6 million made to certain former employees of the Company and Olsten and a current executive officer of the Company, and transition costs of $0.5 million relating to registration costs, professional fees and other items.

During fiscal year 2000, an adjustment of $6.4 million was recorded in cost of services sold for changes in cost estimates arising from the systems conversion and physical inventory procedures which were performed during the third quarter of fiscal 2000. The Company also recorded a charge to cost of sales of $8.5 million in fiscal 2000 to reflect an increase in estimated liabilities to service providers under certain managed care contracts. Such changes in the estimated liabilities were the result of the Company obtaining more timely and accurate claim experience information as a result of completing a system conversion which enhanced its claims reporting functionality.

∉ Prior to October 1, 2000, reimbursement of Medicare home care nursing services was based on reasonable, allowable costs incurred in providing services to eligible beneficiaries subject to both per visit and per beneficiary limits in accordance with the Interim Payment System (the "IPS") established through the Balanced Budget Act of 1997. These costs are reported in annual cost reports which are filed with the Medicare fiscal intermediary and are subject to audit. Effective October 1, 2000, the IPS was replaced by a Prospective Payment System ("PPS") for Medicare home care reimbursement. Under PPS, the Company is eligible to re-

ceive a fixed reimbursement which covers a specified treatment period for each patient. The reimbursement rate is established based on a clinical assessment of the severity of the patient's condition, service needs and certain other factors. The rate is subject to adjustment if there are significant changes in the patient's condition during the specified treatment period. Net revenues attributable to the Medicare program as a percentage of total consolidated net revenues were 18 percent in fiscal 2001 and 16 percent in 2000.

- During the fourth quarter of fiscal 2000, the Company sold its health care staffing services business and its Canadian operations. For the fiscal year ended December 31, 2000, the Company recorded revenues of $145 million, gross profit of $37 million and selling, general and administrative expenses of $27 million relating to the businesses that were sold.

Results of Operations

Revenues

After adjusting for the Staffing and Canadian operations which were sold during the fourth quarter of fiscal 2000, net revenues increased by $16 million or 1.2 percent to $1.38 billion during fiscal 2001 as compared to fiscal 2000 primarily due to a $40 million or 5.7 percent increase in Specialty Pharmaceutical Services revenue, of which $17 million related to an increase in intersegment revenues which was provided to the Home Health Services segment by the Specialty Pharmaceutical Services segment that was eliminated in consolidation, offset somewhat by a $7 million or 1.0 percent decline in Home Health Services revenue. Overall, net revenues in fiscal 2001 decreased by $129 million or 8.6 percent as compared to fiscal 2000, of which $145 million related to fiscal 2000 revenues for the aforementioned sold operations.

During fiscal 2001, the Company experienced unit volume increases in several core chronic therapies in the Specialty Pharmaceutical Services segment. These therapies included (i) Flolan, an intravenous therapy used in the treatment of pulmonary arterial hypertension, which increased by 8.0 percent, (ii) intravenous immune globulin (IVIG), used in the treatment of primary immune deficiency and other diagnoses, which increased by 20.4 percent and (iii) growth hormone, used in the treatment of growth hormone disorder, which increased by 13.6 percent. Revenue growth was negatively impacted by some product shortages of recombinant coagulation therapy, which is used in the treatment of hemophilia. In addition, revenue relating to acute infusion products decreased 2.5 percent due to management's decision to terminate certain contracts in an effort to improve revenue quality and cash flow. Due to significant purchases by wholesale customers early in 2001, revenue relating to Oxandrin, an oral pharmaceutical for involuntary weight loss, increased 17.5 percent during fiscal 2001 as compared to fiscal 2000.

The decline in Home Health Services revenue during fiscal 2001 was attributable primarily to lower volume resulting from transitional issues associated with the implementation of the PPS for Medicare reimbursement and the impact of the closing of certain home care nursing branches during the fourth quarter of fiscal 2000.

Gross Profit

Gross profit margins as a percentage of net revenues increased from 32.2 percent in the fiscal 2000 to 33.3 percent in fiscal 2001. Of the total increase in margins, 1.0 percent can be attributed to the special charges associated with the inventory adjustment of $6.4 million and a $8.5 million charge to reflect an increase in estimated liabilities to service providers under certain managed care contracts which was recorded during fiscal 2000. The remaining increase in margins was primarily attributable to productivity enhancements resulting from a change in clinical protocols and rate increase in Home Health Services (which increased total Company margins by 0.4 percent) as well as the absence of lower margin Staffing and Canadian operations which were sold in

late 2000 (which increased total Company margins by 0.8 percent) offset by a change in business mix reflecting growth in the lower margin Specialty Pharmaceutical Services products and higher costs attributable to certain biological and pharmaceutical products due to product shortages (which decreased total Company margins by 1.1 percent).

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased to $436 million during fiscal 2001 as compared to $615 million during fiscal 2000 due to (i) special charges of $138 million which were recorded in the fiscal 2000 period, (ii) the reduction of $27 million in costs associated with the sale of the Staffing and Canadian operations, (iii) efficiency improvement efforts in Home Health Services branch operations, certain Specialty Pharmaceutical Services administrative functions and corporate administrative support departments, and (iv) the closing of certain home care nursing branches during the fourth quarter of fiscal 2000.

Excluding the effects of the businesses that were sold and the special charges recorded in the periods as described above, selling, general and administrative expenses as a percentage of net revenues were 31.4 percent and 33.0 percent for fiscal 2001 and 2000, respectively.

Interest Expense, Net

Net interest expense was approximately $0.2 million and $9.9 million in fiscal 2001 and 2000, respectively. Net interest expense for fiscal 2001 represented primarily fees relating to the revolving credit facility and outstanding letters of credit and, for the first half of fiscal 2001, the 10 percent convertible preferred trust securities offset by interest income of approximately $2.8 million. During the fiscal year ended December 31, 2000, net interest expense also included interest on the outstanding 4 3/4 percent convertible subordinated debentures which matured and were retired in October 2000, net intercompany borrowings with Olsten up to the Split-off date and interest on borrowings under the credit facility subsequent to the Split-off date.

Income Taxes

Income tax expense for the fiscal 2001 period consisted primarily of taxes relating to certain state jurisdictions. The Company had estimated net operating loss carry forwards (NOLs) of approximately $89.7 million as of December 30, 2001. Because of the uncertainty of ultimate realization of the net deferred tax asset, the Company has established a valuation allowance for the deferred tax asset that is not otherwise used to offset deferred tax liabilities. The Company expects its effective tax rate to be less than 10 percent until such time as the NOLs are utilized.

Net Income (Loss)

The Company recorded net income of $21.0 million or $0.85 per diluted share in fiscal 2001 compared with a net loss of $104.2 million or $(5.05) per diluted share in fiscal 2000.

Year Ended December 31, 2000 Compared to Year Ended January 2, 2000

Results of Operations

Revenues

During fiscal 2000, net revenues increased by $17 million or 1.1 percent to $1.507 billion as compared to net revenues of $1.490 billion during fiscal 1999. Net revenue growth can be attributed to an increase of $35

million or 5.1 percent in Specialty Pharmaceutical Services revenue, of which $20 million related to an increase in intersegment revenues which were provided to the Home Health Services segment by the Specialty Pharmaceutical Services segment that was eliminated in consolidation, and a $9 million or 1.3 percent increase in Home Health Services revenue offset by a $7 million decrease in revenues for the Staffing and Canadian operations which were sold during the fourth quarter of fiscal 2000.

In the Specialty Pharmaceutical Services business, revenue growth for fiscal 2000 was attributable to volume increases in the pulmonary hypertension therapy Flolan(R) which increased by 23.5 percent and the nutrition support therapies such as Total Parental Nutrition (TPN), which increased by 40.9 percent. The revenue growth in these therapies, however, was negatively impacted by some product shortages of recombinant coagulation therapy, which is used in the treatment of hemophilia, and the Bayer Corporation's decision in 1999 to begin directly distributing Prolastin(R), an intravenous therapy used in the treatment of the hereditary disorder Alpha 1 Antirypsin Deficiency. In 1999, Prolaston revenue approximated $19 million.

The increase in Home Health Services revenue related to growth in volume with managed care customers offset by a decline in nursing revenues due to the transition to the new Medicare reimbursement system which became effective on October 1, 2000 as well as the continued shortage of nursing and other caregiver personnel in certain parts of the country and the impact of the closing of certain home care nursing branches during fiscal 2000 and 1999.

Prior to the sale of the Staffing and Canadian operations in the fourth quarter of fiscal 2000, revenue growth for fiscal 2000 reflected volume and rate increases due to strong market demand created by industry growth and a shortage of full time employees in the institutional, occupational and alternate site health care organizations serviced by the Staffing Services business.

Gross Profit

Gross profit margins, as a percentage of net revenues, decreased from 33.9 percent in fiscal 1999 to 32.2 percent in fiscal 2000. Of the total decrease in margins, 1.0 percent can be attributed to the special charges associated with the inventory adjustment of $6.4 million and the increase in liabilities to service providers under certain managed care contracts of $8.5 million which were recorded in fiscal 2000. The remaining decrease in margins was primarily attributable to a change in business mix and higher costs attributable to certain biological and pharmaceutical products in the Specialty Pharmaceutical Services business due to product shortages, partly offset by productivity enhancements and rate increases in Home Health Services.

Selling, General and Administrative Expenses

For fiscal 2000, selling, general and administrative expenses were $615 million as compared to $510 million for fiscal 1999. This increase resulted from a change in the amount of restructuring and other special charges affecting selling, general and administrative expenses from $15 million in fiscal 1999 to $138 million in fiscal 2000 offset somewhat by the impact of efficiency improvement efforts and the closing of home care nursing branches. Excluding the impact of restructuring and other special charges recorded in both years, selling, general and administrative expenses were 31.7 percent of revenues in fiscal 2000 and 33.2 percent of revenues in fiscal 1999.

Restructuring and Other Special Charges

During fiscal 2000 and 1999, the Company recorded restructuring and other special charges aggregating $153.2 million and $15.2 million, respectively.

Fiscal 2000

Restructuring and other special charges during fiscal 2000 aggregated $153.2 million, of which $14.9 million was recorded in cost of services sold. The remaining charges of approximately $138.3 million were recorded in selling, general and administrative expenses and included charges to restructure business operations of $5.5 million, an incremental charge of $112.0 million for increases in the allowance for doubtful accounts and receivable writeoffs, charges of $5.7 million associated with the implementation of the Prospective Payment System for Medicare reimbursement, settlement costs of $7.2 million, Split-off/transition costs of $4.1 million and name change and other costs of $3.8 million. A further description of the nature of such restructuring and other special charges is presented below.

Restructuring of Business Operations

The Company recorded charges of $5.5 million in the fourth quarter of fiscal 2000 in connection with a restructuring plan which included the closing and consolidation of twelve nursing branch locations and the realignment and consolidation of certain corporate and administrative support functions due primarily to the sale of the Company's Staffing Services business and Canadian operations. These charges included employee severance of $2.9 million relating to the termination of 270 employees in nursing branches and certain corporate and administrative departments, asset writedowns of $1.2 million and future lease payments and other associated costs of $1.4 million.

Bad Debt/Receivables Write-Off

During fiscal 2000, the Company launched several initiatives including (i) changes to systems, operational processes and procedures in its contracting, delivery, billing and collection functions and inventory management, (ii) development of numerous enhancements to its billing and collection systems, and (iii) hiring of external consultants to pursue focused collection efforts on specific aged accounts receivable. These initiatives are further described herein.

The Specialty Pharmaceutical Services business implemented a new billing and collection system in the fourth quarter of 1999. Difficulties were encountered in the functionality of the new billing system from the date of implementation through the second quarter of 2000 that resulted in an inability to efficiently and effectively bill new accounts and obtain appropriate documentation and support the follow-up of outstanding accounts. During the third quarter of fiscal 2000, the system implementation difficulties were resolved and a significant number of billing and collection system enhancements were made, which provided management with new and enhanced information as to the collectibility of receivables that was previously unavailable. This information included historical cash collection data segregated by the time period for which the related revenue was recognized, accounts receivable aging trends by payor source and other statistical data.

In May 2000, with the system enhancements now available, the Company hired an external consultant to undertake an accounts receivable reduction engagement and to enhance the billing and collection processes for both the Specialty Pharmaceutical Services business and the Home Health Services business. During the third quarter of 2000, as a result of the work performed by the consultant and the information resulting from the enhanced billing and collection processes, it was determined that the filing deadlines for submitting certain claims for reimbursement to government and commercial payors had expired and documentation required by payors to support certain other claims could not be located. Furthermore, the results of the consultant's cash collection efforts during the period of its engagement were significantly less than initially estimated.

As a result of the consultant's engagement and the new information that became available from the enhancements to the billing and collection systems and changes in operational processes and procedures, management concluded that certain aged accounts which it previously believed were collectible should be written off

because the continuing effort and cost of pursuing collections of these accounts could not be justified. Management decided to focus on the billing and collection activities relating to more current receivable balances.

In connection with these activities, the Company recorded an incremental provision for doubtful accounts of $112.0 million in the third quarter of fiscal year 2000 relating to government and commercial payors, of which $90.0 million related to the Specialty Pharmaceutical Services business and $22.0 million related to the Home Health Services business. The incremental provision for doubtful accounts related to revenues recognized in the following years: $34 million in fiscal 1998 and prior, $52 million in fiscal 1999 and $26 million in fiscal 2000. This incremental provision for doubtful accounts was reflected in selling, general and administrative expenses in the consolidated statement of operations for the year ended December 31, 2000.

PPS Implementation Costs

The Company recorded charges of $5.7 million in connection with the implementation of and transition to the PPS system for Medicare reimbursement. Such charges included costs relating to the development of care protocols, training of field personnel and changes in estimates of settlement amounts.

Settlement Costs

The Company also recorded a $7.2 million charge in the third quarter of fiscal 2000 to reflect estimated settlement costs in excess of insurance coverage relating to class action securities and derivative lawsuits, the obligation for which was assumed by the Company from Olsten under an indemnification provision in connection with the Split-off, as well as estimated settlement costs related to government inquiries in New Mexico and North Carolina (see Note 9 to the consolidated financial statements).

Split-off/Transition Costs

Special charges of $4.1 million were incurred during fiscal 2000 to reflect obligations resulting from the Company's Split-off from Olsten and transition costs associated with the establishment of the Company as an independent, publicly-owned entity. These special charges included change of control and compensation and benefit payments of $3.6 million made to certain former employees of the Company and Olsten and a current executive officer of the Company, and transition costs of $0.5 million relating to registration costs, professional fees and other items.

Name Change and Other

Special charges of approximately $3.8 million were incurred in fiscal 2000 in connection with the change of the Company's name to Gentiva Health Services, Inc. These special charges primarily consisted of costs incurred and paid for consulting fees, promotional items and advertising.

Costs of Services Sold

An adjustment of $6.4 million was recorded in cost of services sold for changes in cost estimates arising from the systems conversion and physical inventory procedures which were performed during the third quarter of fiscal 2000. The Company recorded a charge to cost of sales of $8.5 million in the fourth quarter of fiscal 2000 to reflect an increase in estimated liabilities to service providers under certain managed care contracts. Such changes in the estimated liabilities were the result of the Company obtaining more timely and accurate claim experience information as a result of completing a system conversion which enhanced its claims reporting functionality.

Fiscal 1999

In the quarter ended April 4, 1999, the Company recorded a restructuring charge totaling $16.7 million. This charge was for the realignment of business units as part of a new restructuring plan, including compensation and severance costs of $5 million to be paid to operational support staff, branch administrative personnel and management, asset write-offs of $6.5 million, related primarily to fixed assets being disposed of in offices being closed and facilities being consolidated as well as fixed assets and goodwill attributable to the Company's exit from certain businesses previously acquired but not within the Company's strategic objectives and integration costs of $5.2 million, primarily related to obligations under lease agreements for offices and other facilities being closed.

As of the end of fiscal 1999, substantially all of the closures and consolidation of facilities and expected terminations had occurred. These activities have resulted in lower costs than originally estimated and, as a result, the Company recognized a benefit of $1.5 million in the fourth quarter of fiscal 1999 to reflect this change in estimate. The realignment of the business units achieved a reduction of expenses of about $3 million in 1999, due to reduced employee, lease and depreciation expenses.

Gain on Sales of Businesses

During the fourth quarter of fiscal 2000, the Company recorded a gain of $36.7 million on the sale of its health care staffing services business and its Canadian operations. In connection with the sale of the health care staffing services business, the Company received cash proceeds of $66.5 million. These proceeds are subject to adjustment (upward or downward) in accordance with the terms of the purchase and sale agreement related to final closing balance sheet items. The Company recorded a gain of approximately $44.4 million on the sale.

As a result of the sale of its home care nursing services operations in Canada, the Company received approximately $1.5 million in cash proceeds, including settlements of the final closing balance sheet, and a minority interest in the acquiror. The Company recorded a charge of approximately $5.2 million as a result of the impairment of goodwill. In addition, cumulative translation losses of approximately $2.5 million were reversed from the accumulated other comprehensive loss component of stockholders' equity and were reflected as a loss. No other gain or loss was recorded on the sale.

Interest Expense, Net

Interest expense, net was $10 million in fiscal 2000 and $17 million in fiscal 1999. Interest expense, net represented primarily interest on the outstanding 4 3/4 percent convertible subordinated debentures during fiscal 1999 and the period from January 3, 2000 to October 1, 2000 (the debentures' maturity date), net intercompany borrowings with Olsten for fiscal 1999 and the period from January 3, 2000 to March 15, 2000 (the Split-off date) and, subsequent to March 15, 2000, borrowings and fees relating to the revolving credit facility and the mandatorily redeemable securities.

Interest expense, net includes interest income of $0.8 million in fiscal 2000 and $0.3 million in fiscal 1999.

Income Taxes

Income tax expense for fiscal 2000 consisted of taxes relating to certain state jurisdictions. The Company has estimated net operating loss carry forwards (NOLs) of approximately $76 million as of December 31, 2000. Because of the uncertainty of ultimate realization of the net deferred tax asset, the Company has established a valuation allowance of approximately $57 million for the deferred tax asset that is not otherwise used to

offset deferred tax liabilities. The valuation allowance had the effect of reducing the Company's effective tax rate for fiscal 2000. The Company expects its effective tax rate to be below 10 percent until such time as the NOLs are utilized.

Net Income (Loss)

The Company recorded a net loss of $104.2 million or $(5.05) per diluted share in fiscal 2000 compared with a net loss of $15.1 million or $(0.74) per diluted share in fiscal 1999.

Liquidity and Capital Resources

Working capital at December 30, 2001, was $401 million, an increase of $52 million as compared to $349 million at December 31, 2000. Net receivables decreased by $51 million during fiscal 2001 as a result of improved cash collections driven by enhancements in the billing system for Specialty Pharmaceutical Services and process and technology changes in Home Health Services billing and collection units as well as increases in billing through electronic data interchange. Days Sales Outstanding ("DSO") was 111 days at December 31, 2000, after adjusting for the sale of the Company's staffing services business and Canadian operations. DSO was 94 days at December 30, 2001 as a result of improved cash collections in the Specialty Pharmaceutical Services business, which has a DSO of 113 days, and the Home Health Services business, which had a DSO of 68 days. Of the total improvement of 17 days in fiscal 2001, a reduction in DSO of 8 days occurred in the fourth quarter.

Cash and cash equivalents, including restricted cash, increased by approximately $107 million as of December 30, 2001 as compared to December 31, 2000 as a result of (i) cash flow from operations, net of a decrease in book overdrafts which were included in accounts payable at December 31, 2000, of approximately $82 million, (ii) Medicare advances, net of payments for estimated settlements, of approximately $21 million, and (iii) proceeds from the exercise of stock options of approximately $14 million, offset somewhat by capital expenditures of approximately $10 million. In early 2001, the Center for Medicare and Medicaid Services, formerly known as the Health Care Financing Administration, issued cash advances to certain Medicare providers in connection with the transition from the IPS to the PPS for Medicare reimbursement. Such advances, which were reflected in accrued expenses in the accompanying consolidated balance sheet as of December 30, 2001, are expected to be repaid during the second quarter of fiscal 2002.

The Company maintains a credit facility, which provides for up to $150 million in borrowings. The Company may borrow up to a maximum of 80 percent of eligible accounts receivable, as defined. At the Company's option, the interest rate on borrowings under the credit facility is based on the London Interbank Offered Rate (LIBOR) plus 2.5 percent or the lender's prime rate plus 0.25 percent. The Company is subject to an unused line fee equal to 0.375 percent per annum of the average daily difference between $150 million and the total outstanding borrowings and letters of credit. In addition, the Company must pay a fee equal to 2.25 percent per annum of the aggregate face amount of outstanding standby letters of credit.

The credit facility, which expires in 2004, includes certain covenants requiring the Company to maintain a minimum tangible net worth and minimum earnings before interest, taxes, depreciation and amortization. Other covenants in the credit facility include limitation on mergers, consolidation, acquisitions, indebtedness, liens, capital expenditures and dispositions of assets and other limitations with respect to the Company's operations. Certain of these covenants would be violated if the Company does not negotiate a new credit facility or receive a consent from its lenders in connection with the sale of the Specialty Pharmaceutical Services business. The Company's obligations under the credit facility are collateralized by all of the Company's tangible and intangible personal property, and other equipment. As of December 30, 2001, the Company was in compliance with its financial covenants and had borrowing capacity under the credit facility, after adjusting for outstanding letters of credit, of approximately $124 million.

In June 2001, the Company's credit facility was amended to increase the portion of the facility available for letters of credit from $30 million to either (i) $40 million or (ii) $70 million in the event that the Company elected to post a letter of credit in lieu of an appellate bond for all or a part of the total amount of the judgment (including interest) in the Fredrickson v. Olsten Health Services Corp. and Olsten Corporation case while the Company pursues its appeal of the judgment as further discussed in Note 9. A supersedeas bond in the amount of $35 million was posted to satisfy the judgment plus interest. Under the terms of the bond, cash equal to the amount of the bond is held in a segregated account and is reported as restricted cash in the consolidated balance sheet as of December 30, 2001.

As described in Note 9 to the Company's Consolidated Financial Statements, the Company has pending litigation and a government investigation. At this time, the Company is unable to assess the probable outcome of some of these matters and an unfavorable resolution of any of these matters could have a material adverse affect on the Company. In particular, in connection with the Fredrickson case, if a final non-appealable order is rendered against the Company consistent with the lower court's ruling, the Company could be required to pay a full $35 million judgment plus additional accrued interest. Any resolution of this matter (by settlement or final non-appealable court order) could have a material adverse effect on the Company's results of operations, cash flows and financial condition.

As a result of the pending sale of the Specialty Pharmaceutical Services business, the Company is currently in discussions with its existing administrative agent for an underwriting of a new credit facility which would provide for borrowing capacity of up to $65 million and a new four-year term as well as rates, conditions and covenants similar to its existing facility. Although the execution of a new revolving credit agreement cannot be assured, the Company expects the new credit facility to be established at or prior to the consummation date of the sale of the Specialty Pharmaceutical Services business. The terms of the existing credit facility would require that the Company obtain a consent from its lenders prior to the closing of the sale of the Specialty Pharmaceutical Services business.

Although the Company had cash and cash equivalents, including approximately $35 million of restricted cash, of approximately $107 million at December 30, 2001, approximately $21 million represented cash advances from the Medicare program which are expected to be repaid by the Company during 2002, approximately $14 million is expected to be paid upon the closing of the sale of the Specialty Pharmaceutical Services business as transaction costs (including advisor fees and payments under change in control agreements and severance arrangements), approximately $9 million may be required to cover a portion of the corporate taxes resulting from the receipt of consideration from the sale of the Specialty Pharmaceutical Services business and up to $25 million is intended to be used in connection with a cash tender offer for all of the Company's stock options which will commence prior to the closing of the sale of the Specialty Pharmaceutical Services business. After considering the aforementioned cash outflows and anticipated cash flow from operations and cash proceeds from the exercise of stock options that could be generated through the closing date, the Company expects to have a balance of cash and cash equivalents, including restricted cash in excess of $60 million following the distribution to stockholders of the consideration to be received from Accredo Health, Incorporated upon the sale of the Specialty Pharmaceutical Services business.

Management believes cash flows from operations, existing cash and cash equivalent balances, borrowings available under the credit facility and other financing options will be adequate to support the Company's operating requirements both before and after the disposition of the Specialty Pharmaceutical Services business. The Company would not have been profitable in fiscal 2001 if results of operations for the Specialty Pharmaceutical Services business were excluded and prior to any reduction in corporate and other administrative expenses. The Company is currently evaluating alternative realignment and consolidation initiatives in an effort to achieve cost savings and profitability following the sale of the Specialty Pharmaceutical Services business. However, there can be no assurance that such cost savings and profitability will be achieved.

The Company intends to make investments and other expenditures to, among other things, upgrade its computer technology and system infrastructure and comply with regulatory changes in the industry. These capital expenditures are not expected to exceed $10 million in fiscal 2002. If cash flows from operations or availability under the existing or new credit facility fall below expectations, the Company may be forced to delay planned capital expenditures, reduce operating expenses, seek additional financing or consider alternatives designed to enhance liquidity.

Contractual Obligations and Commercial Commitments

At December 30, 2001, the Company had no long-term debt and no significant capital lease obligations. Future minimum rental commitments, net of sublease rentals, for all non-cancelable operating leases having an initial or remaining term in excess of one year at December 30, 2001, segregated by year, are $21.8 million in fiscal 2002, $16.7 million in fiscal 2003, $12.4 million in fiscal 2004, $7.3 million in fiscal 2005, $2.4 million in fiscal 2006 and $0.3 million thereafter.

The Company had total letters of credit of approximately $25.7 million outstanding under its credit facility at December 30, 2001. The letters of credit, which expire one year from date of issuance, are issued to guarantee payments under the Company's workers compensation program and for certain other commitments. In March 2002, approximately $24.3 million of the outstanding letters of credit expired and were renewed for an additional one year term.

The Company has no other off-balance sheet arrangements and has not entered into any transactions involving unconsolidated, limited purpose entities or commodity contracts.

Litigation and Government Investigations

The Company is a party to certain legal actions and government investigations. See Item 3. Legal Proceedings and Note 9 to the Company's Consolidated Financial Statements.

Impact of Recent Accounting Pronouncements

Goodwill and Other Intangible Assets

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS 142"). Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with SFAS 142. Other intangible assets will continue to be amortized over their estimated useful lives. At December 30, 2001, the Company had net intangible assets, principally goodwill, of $220.5 million, of which approximately $217.3 million related to the Home Health Services business.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in fiscal year 2002. Management does not expect that the new criteria for recording intangible assets separate from goodwill will require the Company to reclassify any of its intangible assets. The Company expects that in fiscal 2002 it will no longer record approximately $10 million of amortization relating to existing goodwill.

The Company will also perform required impairment tests of goodwill and indefinite lived intangible assets as of the beginning of fiscal year 2002. The Company believes that adoption of the SFAS 142 will result in a writedown for goodwill impairment which could have a material impact on the net income and financial position of the Company's Home Health Services business in the period in which the new accounting principle is adopted; however, implementation of the new SFAS 142 is not expected to have any impact on cash flow

from operations. Due to the assumptions and variables involved in determining value of the Company's stock associated with the Home Health Services business, the Company has not yet determined the amount of the goodwill writedown.

Accounting for Impairment and Disposal of Long-Lived Assets

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 "Accounting for Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which supersedes Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS 121"). SFAS 144 further refines SFAS 121's requirement that companies recognize an impairment loss if the carrying amount of a long-lived asset is not recoverable based on its undiscounted future cash flows and measure an impairment loss as the difference between the carrying amount and fair value of the asset. In addition, SFAS 144 provides guidance on accounting and disclosure issues surrounding long-lived assets to be disposed of by a sale. SFAS 144 also extends the presentation of discontinued operations to include more disposal transactions. SFAS 144 is effective for fiscal years beginning after December 15, 2001 (fiscal 2002 for the Company). Management believes that the adoption of SFAS 144 will not have a material effect on the Company's consolidated results of operations or financial position.

Impact of Inflation

The Company does not believe that inflation has had a material impact on its results of operations during the past three fiscal years.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates of the Company relate to revenue recognition, the collectibility of accounts receivable, the cost of claims incurred but not reported, obligations under workers compensation and professional liability insurance programs and Medicare settlement and investigation issues.

A description of the accounting policies and a discussion of the significant estimates and judgments associated with such policies are described below.

Revenue Recognition

Under fee-for-service agreements with patients and commercial and certain government payors, net revenues are recorded based on net realizable amounts to be received in the period in which the services and products are provided or delivered. Under full risk capitated arrangements with managed care customers, net revenues are recognized based on a predetermined monthly contractual rate for each member of the managed care plan regardless of the services provided. Under the Prospective Payment System for Medicare reimbursement, net revenues are recorded based on a reimbursement rate which varies based on the severity of the patient's condition, service needs and certain other factors; revenue is recognized ratably over the estimated period in which services are provided and revenue is subject to adjustment if there are significant changes in the patient's condition during the treatment period or if the patient is discharged but readmitted to another agency within the same sixty day episodic period.

Revenue adjustments result from differences between estimated and actual reimbursement amounts, an inability to obtain appropriate billing documentation or authorizations acceptable to the payer and other reasons

unrelated to credit risk. Revenue adjustments are deducted from gross accounts receivable. These revenue adjustments, particularly in the Specialty Pharmaceutical Services business, are based on significant assumptions and judgments which are determined by Company management based on historical trends.

The process for recognizing revenue under capitated contracts and the majority of fee-for-service arrangements is generally straight-forward. The process for estimating revenue to be recognized under the Medicare program is based on certain assumptions and judgments, including the average length of time of each treatment as compared to a standard sixty day episode, the appropriateness of the clinical assessment of each patient at the time of certification and the level of adjustments to the fixed reimbursement rate relating to patients who receive a limited number of visits, have significant changes in condition or are subject to certain other factors during the episode.

Collectibility of Accounts Receivable

The process for estimating the ultimate collection of receivables, particularly with respect to fee-for-service arrangements, involves significant assumptions and judgments. In this regard, the Company has implemented a standardized approach to estimate and review the collectibility of its receivables based on accounts receivable aging trends. Historical collection and payor reimbursement experience is an integral part of the estimation process related to determining the allowance for doubtful accounts. In addition, the Company assesses the current state of its billing functions in order to identify any known collection or reimbursement issues to determine the impact, if any, on its reserve estimates, which involve judgment. The Company believes that the collectibility of its receivables is directly linked to the quality of its billing processes, most notably those related to obtaining the correct information to bill effectively for the services that are provided. Revisions in reserve estimates are recorded as an adjustment to the provision for doubtful accounts which is reflected in selling, general and administrative expenses. The Company believes that its collection and reserve processes, along with the monitoring of its billing processes, help to reduce the risk associated with material revisions to reserve estimates resulting from adverse changes in collection and reimbursement experience and billing functions.

Cost of Claims Incurred But Not Reported

Under full risk capitated arrangements with managed care customers, the Company estimates the cost of claims incurred but not reported based on applying actuarial assumptions, historical patterns of utilization to authorized levels of service, current enrollment statistics and other information. In addition, under fee-for-service arrangements with certain managed care customers, the Company also estimates the cost of claims incurred but not reported and the estimated revenue relating thereto in situations in which the Company is responsible for care management and patient services are performed by a non-affiliated provider.

The estimate of cost of claims incurred but not reported involves significant assumptions and judgments which relate to and may vary depending on the services authorized at each of our care management centers, historical patterns of service utilization and payment trends. These assumptions and judgments are evaluated on a quarterly basis and changes in estimated liabilities for costs incurred but not reported are determined based on such evaluation.

Obligations Under Workers Compensation and Professional Liability Insurance Programs

The Company may be subject to workers compensation claims and lawsuits alleging negligence or other similar legal claims. The Company maintains various insurance programs to cover this risk but is substantially self-insured for most of these claims. The Company recognizes its obligations associated with these programs in the period the claim is incurred. The cost of both reported claims and claims incurred but not reported, up to specified deductible limits, are estimated based on historical data, industry statistics, current enrollment

statistics and other information. Such estimates and the resulting reserves are reviewed and updated periodically, and any adjustments resulting there from are reflected in earnings currently.

The Company maintains insurance coverage which caps its exposure on individual claims. The Company is responsible for the cost of individual workers compensation claims up to $500,000 per incident and individual professional liability claims up to $500,000 per incident through March 15, 2002 and $1,000,000 per incident thereafter. The Company also maintains excess liability coverage relating to professional liability and casualty claims which provides insurance coverage for individual claims of up to $25,000,000 in excess of the deductible amount. The Company believes that present insurance coverage and reserves are sufficient to cover currently estimated exposures but there can be no assurance that the Company will not incur liabilities in excess of recorded reserves.

Settlement Issues and Government Investigations

Prior to October 1, 2000 reimbursement of Medicare home care nursing services was based on reasonable, allowable costs incurred in providing services to eligible beneficiaries subject to both per visit and per beneficiary limits in accordance with the Interim Payment System established through Balanced Budget Act of 1997. These costs are reported in annual cost reports, which are filed with the Center for Medicare and Medicaid Services (CMS), are subject to audit by the fiscal intermediary engaged by CMS. The fiscal intermediary has not completed its audit of the fiscal 2000 cost reports and the review of cost limits relating to certain of the Company's Medicare providers. Although management believes that established reserves are sufficient, it is possible that adjustments resulting from such audit by the fiscal intermediary could result in adjustments to the consolidated financial statements that exceed established reserves.

The Company has filed appeals with the Provider Reimbursement Review Board for the years 1997, 1998 and 1999 concerning audit adjustments made by its Medicare fiscal intermediary. These audit adjustments relate to the methodology used by the Company in allocating a portion of its residual overhead cost on the Medicare cost reports. The Company believes its methodology used to allocate such overhead cost was accurate and consistent with past practice accepted by the fiscal intermediary; however, the Company has recorded the impact of the audit adjustments in its consolidated financial statements and has not recorded any anticipated recovery from the appeals. The Company is unable to predict the outcome of these appeals.

In addition, as discussed in Note 9 to the Consolidated Financial Statements, the Company is subject to a government investigation and has provided the Office of Inspector General and other government agencies with requested documents and has cooperated fully with the investigation. At this time, the Company is unable to assess the probable outcome or potential liability, if any, arising from this investigation; however, an unfavorable resolution of this matter could have a negative impact on the Company's results of operations and cash flows in the period in which the investigation is concluded.

Forward Looking Information

Certain of the matters discussed in this Annual Report on Form 10-K should be considered "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and are subject to various risk factors and uncertainties.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The Company's exposure to the market risk for changes in the interest rates related to the fair value of its fixed rate Quantum debentures until their repayment in October 2000. Generally, the fair market value of fixed rate debt will increase as interest rates fall and decrease as interest rates rise. The Company had no interest rate exposure on fixed rate debt at December 30, 2001.

Item 8. Financial Statements and Supplementary Data.

The following financial statements and financial schedule of the Company are included in this report:

	Page(s) in this Report
Report of Independent Accountants	F-2
Consolidated Balance Sheets as of December 30, 2001 and December 31, 2000	F-3
Consolidated Statements of Operations for the three years ended December 30, 2001	F-4
Consolidated Statements of Changes in Shareholders' Equity for the three years ended December 30, 2001	F-5
Consolidated Statements of Cash Flows for the three years ended December 30, 2001	F-6
Notes to Consolidated Financial Statements	F-7
Schedule II - Valuation and Qualifying Accounts for the three years ended December 30, 2001	F-32

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

There have been no such changes or disagreements.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The following information, as reported to the Company, is shown below for each director: name, age and principal occupation; period during which he or she has served as a director; position, if any, with the Company; certain business experience; other directorships held; and the committees of the Board of Directors on which the director serves.

Class I - Directors with Terms Expiring in 2004

Victor F. Ganzi .... Mr. Ganzi has served as a director of the Company and Chairman of the Audit Committee of the Board since November 1999. He served as a director of Olsten Corporation from 1998 until March 2000. He has been executive vice president of The Hearst Corporation, a diversified communications company with interests in magazine, newspaper and business publishing and television and radio stations, since March 1997, and its chief operating officer since March 1998. From 1992 to 1997, at various times, Mr. Ganzi served as Hearst's senior vice president, chief financial officer, and chief legal officer. From March 1995 until October 1999 he was group head of Hearst's Books/Business Publishing Group. He is a director of Hearst-Argyle Television, Inc. Mr. Ganzi is 55 years old.

Josh S. Weston....................................... Mr. Weston has served as a director of the Company and Chairman of the Human Resources and Compensation Committee of the Board since November 1999. He served as a director of Olsten Corporation from 1995 until March 2000. Since May 1998, he has been honorary chairman of Automatic Data Processing, Inc., a provider of computerized transaction processing, data communication and information services. He was chairman of Automatic Data Processing, Inc. from 1982 to April 1998 and was chief executive officer of Automatic Data Processing, Inc. from 1982 to August 1996. He is a director of Aegis Communications, Inc., Automatic Data Processing, Inc., Exult Inc., J. Crew Inc. and Russ Berrie Corp. and a trustee of Atlantic Health Systems, Inc. Mr. Weston is 73 years old.

Gail Wilensky .... Dr. Wilensky has served as a director of the Company and a member of the Audit Committee of the Board since March 2000. She is currently the John M. Olin Senior Fellow at Project HOPE, an international health foundation, and Co-Chair of the President's Task Force To Improve Healthcare Delivery For Our Nation's Veterans. From 1997 - 2001, she chaired the Medicare Payment Advisory Commission. She served as deputy assistant to President George H. Bush for policy development from March 1992 to January 1993 and as administrator of the Health Care Financing Administration from January 1990 to March 1992. She is an elected member of the Institute of Medicine and serves as a trustee of the Combined Benefits Fund of the United Mineworkers of America and the Research Triangle Institute. She is an advisor to the Robert Wood Johnson Foundation and The Commonwealth Fund. She is a director of Advanced Tissue Sciences, ManorCare, Quest Diagnostics, Syncor International and United HealthCare. Dr. Wilensky is 58 years old.

Class II - Directors with Terms Expiring in 2002

Edward A. Blechschmidt .... Mr. Blechschmidt has served as president, chief executive officer

and chairman of the board of directors of the Company since November 1999. He served as the chief executive officer and a director of Olsten Corporation from February 1999 until March 2000. He was also the president of Olsten Corporation from October 1998 until March 2000 and served as the chief operating officer of Olsten Corporation from October 1998 to February 1999. From August 1996 to October 1998 he was president and chief executive officer of Siemens Nixdorf Americas, an information technology company. From January 1996 to July 1996 he was senior vice president and chief financial officer of Unisys Corporation, a provider of information technology and consulting services. Mr. Blechschmidt is 49 years old.

Steven E. Grabowski.............................. Mr. Grabowski has served as a director of the Company since November 1999. He is currently a Vice President in the Private Client Group of UBS Paine Webber, a member of the New York Stock Exchange, where he has worked since 1991. He is the brother-in-law of Mr. Stuart Olsten, a director of the Company. Mr. Grabowski is 47 years old.

Raymond S. Troubh.............................. Mr. Troubh has served as a director of the Company and a member of the Human Resources and Compensation Committee of the Board since November 1999 and as a member of the Audit Committee of the Board since May 2000. He served as a director of Olsten Corporation from 1993 until March 2000. He has been a financial consultant for more than five years. He is a director of ARIAD Pharmaceuticals, Inc., Diamond Offshore Drilling Inc., Enron Corp., General American Investors Company, Health Net, Inc., Hercules Incorporated, Starwood Hotels and Resorts, Triarc Companies and WHX Corporation. Mr. Troubh became a director of Enron Corp. in November 2001. He is also a Trustee of Petrie Stores Liquidating Trust. Mr. Troubh is 75 years old.

Class III - Directors with Terms Expiring in 2003

Stuart R. Levine..................................... Mr. Levine has served as a director of the Company and a member of the Human Resources and Compensation Committee of the Board since November 1999. He served as a director of Olsten Corporation from 1995 until March 2000. Since June 1996 he has served as the chairman and chief executive officer of Stuart Levine and Associates LLC, an international consulting and training company. From September 1992 to June 1996 he was chief executive officer of Dale Carnegie & Associates, Inc. He is the author of the best seller, The Leader in You. Mr. Levine currently serves as a trustee of North Shore - LIJ Health System, and for 15 years, until 1995, he served as a vice chairman of North Shore Hospital. Mr. Levine is 54 years old.

Stuart Olsten.. Mr. Olsten has served as a director of the Company since November 1999. He served as a director of Olsten Corporation from 1986 until March 2000. From February 1999 until March 2000 he was

the chairman of the board of directors of Olsten Corporation. He was vice chairman of Olsten Corporation from August 1994 to February 1999 and was president of Olsten Corporation from April 1990 to February 1999. Since April 2001, he has been chairman of Olsten Venture Partners, which acquires and manages companies in the food service industry. He is a director of Adecco SA. He is the brother-in-law of Mr. Steven Grabowski, a director of the Company. Mr. Olsten is 49 years old.

For information about the Company's executive officers, see Item 4(a) "Executive Officers of the Company" included in PART I hereof.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, and the rules thereunder require the Company's directors and officers and persons who beneficially own more than ten percent of its outstanding Common Stock to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company and to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely on review of copies of reports furnished to the Company and upon representations made, the Company believes that during the fiscal year ended December 30, 2001, all persons subject to the Section 16(a) filing requirements filed the required reports on a timely basis, except that Steven E. Grabowski, a director of the Company, filed two late reports, one in December 2001 covering a transaction in September 2001 and the other in January 2002 covering a transaction in August 2001.

Item 11. Executive Compensation.

The Company began operating as an independent publicly traded company following its Split-Off from Olsten on March 15, 2000. The information shown below reflects the annual and long-term compensation, from all sources, of the chief executive officer of the Company and the other four most highly compensated executive officers of the Company at December 30, 2001 (the "Named Officers") for services rendered in all capacities to the Company and its subsidiaries during fiscal 2001 and 2000.

Summary Compensation Table

Name and Principal Position	Annual Compensation				Long Term Compensation Awards	
	Year (1)	Salary($)	Bonus ($)	Other Annual Compensation ($) (2)	Securities Underlying Options(#)	All Other Compensation ($) (3)
Edward A. Blechschmidt	2001	$ 600,000	$ 700,000	$ 7,707	60,000	$ 906,445
President, Chief Executive Officer and Chairman of the Board (4)	2000	458,654	650,000	7,777	90,000	3,758,078
John J. Collura	2001	340,000	200,000	6,015	40,000	70,531
Executive Vice President Chief Financial Officer and Treasurer	2000	330,791	140,000	4,693	65,000	86,447
Robert J. Nixon	2001	380,000	165,000	4,115	40,000	37,679
Executive Vice President	2000	379,038	150,000	2,973	65,000	30,469
Ronald A. Malone	2001	375,000	180,000	3,099	40,000	38,551
Executive Vice President (5)	2000	284,519	200,000	3,162	65,000	26,919
E. Rodney Hornbake	2001	275,000	60,000	1,433	15,000	11,472
Senior Vice President and Chief Medical Officer	2000	273,791	65,000	1,461	20,000	14,155

(1) Gentiva was not a reporting company prior to March 15, 2000.

(2) Gross-up of taxable portion of fringe benefit.

(3) Represents profit sharing and matching contributions by Gentiva for the Named Officers pursuant to Gentiva's Nonqualified Retirement and Savings Plan for fiscal 2001 and for the period March 15, 2000 through December 31, 2000. In addition, for fiscal 2000 for Messrs. Collura and Nixon includes matching contributions made to Olsten Corporation's Nonqualified Retirement and Savings Plan in the amounts of $5,241 and $4,565, respectively, for the period January 3, 2000 through March 14, 2000. For fiscal 2001, also includes for Mr. Blechschmidt a one-time payment of $815,253 for excise taxes imposed by reason of the receipt of amounts payable under his separation, consulting and non-competition agreement with Olsten and its parent company, Adecco SA, and $3,939 of above-market interest earned on deferred compensation and for Mr. Collura payment by Gentiva of $34,891 for relocation expenses. For fiscal 2000, also includes for Mr. Blechschmidt a one-time payment of $3,700,000 from Gentiva's now terminated Supplemental Executive Retirement Plan and $625 of above-market interest earned on deferred compensation and for Mr. Collura payment by Gentiva of $58,140 for relocation expenses.

(4) For fiscal 2000, Mr. Blechschmidt salary shown is for the period March 15, 2000 through December 31, 2000. In addition, for the period January 3, 2000 through March 14, 2000, (i) Mr. Blechschmidt was paid $236,538 in salary and for unused vacation by Olsten Corporation for services performed by Mr. Blechschmidt for Olsten Corporation and its subsidiaries, including the Company, and (ii) $7,096 in matching contributions were made to Olsten Corporation's Nonqualified Retirement and Savings Plan for Mr. Blechschmidt. Other payments to Mr. Blechschmidt made by Olsten Corporation and Adecco SA in connection with the Split-Off are not reflected in the Summary Compensation Table.

(5) For fiscal 2000, Mr. Malone's salary shown is for the period March 15, 2000 through December 31, 2000.

Stock Options

Stock Option Grants in Last Fiscal Year

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Appreciation for Option Term (1)	
	Number of Securities Underlying Options Granted (#)(2)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price ($Sh)	Expiration Date	5% ($)	10% ($)
Edward A. Blechschmidt	60,000	6.5%	$13.1875	1/2/11	$ 497,616	$ 1,261,014
John J. Collura	40,000	4.3	13.1875	1/2/11	331,744	840,676
Robert J. Nixon	40,000	4.3	13.1875	1/2/11	331,744	840,676
Ronald A. Malone	40,000	4.3	13.1875	1/2/11	331,744	840,676
E. Rodney Hornbake	15,000	1.6	13.1875	1/2/11	124,404	315,254

(1) The dollar amounts under the indicated columns are the result of calculation at the 5% and 10% rates set forth by the Securities and Exchange Commission and are not intended to forecast possible future appreciation of Gentiva's stock price.

(2) The options were granted at an exercise price equal to the fair market value of Gentiva's Common Stock on the date of the grant. The options have a ten-year term and become exercisable over a three-year period in increments of 33-1/3% per year beginning with the first anniversary of the date of the grant. The vesting of all outstanding options of the Company will accelerate upon the closing of the sale of the Company's specialty pharmaceutical services business.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at Fiscal Year End (#)		Value of Unexercised In-the-Money Options at Fiscal Year End ($)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Edward A. Blechschmidt	417,609	$7,258,988	339,464	120,000	$6,293,544	$ 1,505,625
John J. Collura	115,148	1,964,707	0	83,332	0	1,057,999
Robert J. Nixon	231,016	3,369,169	36,816	83,332	462,148	1,057,999
Ronald A. Malone	17,598	276,947	4,070	83,332	65,629	1,057,999
E. Rodney Hornbake	6,668	80,891	0	28,332	0	349,249

Employment Agreement, Change in Control Agreements and Severance Agreements

On March 14, 2000, the Company entered into an employment agreement with Mr. Blechschmidt, its president, chief executive officer and chairman of the board of directors. The agreement became effective on March 15, 2000 and will be in effect for a period of three years from such date. During the term of the agreement, Mr. Blechschmidt will receive (i) a base salary of $600,000 per year and (ii) an annual bonus, based on the achievement of target levels of performance, with target bonus equal to 80 percent of his base salary and the maximum bonus equal to 120 percent of his salary. However, Mr. Blechschmidt's bonus could not be less than 50 percent of his base salary for 2000. Mr. Blechschmidt will also receive customary benefits, perquisites and reimbursement for expenses.

The agreement provides that Mr. Blechschmidt's employment will terminate upon death or disability, termination of his employment for cause, termination of his employment without cause or termination by Mr.

Blechschmidt of his employment for good reason. In the event his employment is terminated as a result of his death or disability, he or his estate will be entitled to receive his earned salary, vested benefits and accelerated vesting of his accrued pension benefits. He will not be entitled to severance benefits. In the event the agreement is terminated for cause by the Company he will be entitled to receive earned salary and vested benefits and will not be entitled to severance benefits. In the event the agreement is terminated for good reason by Mr. Blechschmidt or without cause by the Company he will be entitled to earned salary, vested benefits, severance benefits and accelerated vesting of his accrued pension benefits and continued medical benefits for up to two years. Severance benefits are deemed equal to two times Mr. Blechschmidt's base salary, so long as Mr. Blechschmidt does not receive any amounts under his change in control agreement described below.

The employment agreement also restricts Mr. Blechschmidt's ability to engage in any of the Company's business lines in the United States and Canada for the term of the agreement and during the nine months after termination of his employment, other than termination without cause and termination for good reason. It also contains confidentiality provisions and provisions for non-solicitation of the Company's employees.

Mr. Blechschmidt has also entered into a change in control agreement with the Company, similar to the terms described below.

The following Named Officers of the Company are parties to change in control agreements in connection with their employment with the Company: Edward A. Blechschmidt, John J. Collura, Ronald A. Malone and Robert J. Nixon. These agreements have a term of three years, commencing on March 15, 2000. They generally provide benefits in the event (i) the employee's employment is terminated by the Company and the termination is not for cause or is by the employee for good reason (as specified in the agreement) or (ii) the termination is within three years after a change in control of the Company. In addition, these executive officers will receive the benefit of their agreements if they are terminated by the Company without cause up to a year before a change in control, if their termination arose in connection with the change in control.

The benefits conferred under these agreements generally will include a cash payment equal to two times the employee's base salary and target bonus; continued benefits for the two years following the termination or until such earlier date that the employee obtains comparable benefits from another employer; immediate vesting of any stock options held by the employee (those options would remain exercisable for one year following the termination, but not beyond the original full term); and full vesting of retirement and deferred compensation benefits. Under certain circumstances the benefits could be reduced in order to avoid the incurrence of excise taxes by the employees.

Under the agreements, a change in control is defined to include the following events: a person or group (with certain exceptions for the Olsten family) beneficially owns at least 25 percent or more of the voting stock; either the directors (and their approved successors) cease to constitute a majority of the board of directors or a majority of the persons nominated by the board of directors for election fails to be elected; a merger of the Company if the stockholders do not own a majority of the stock of the surviving company or if the members of the board of directors do not constitute a majority of the directors of the surviving company's board; if the Company is liquidated; or if all or substantially all of the assets are sold.

In addition, the change in control agreements provide that if an employee substantially prevails in a dispute with the Company relating to his or her agreement, the Company will pay that employee's attorney's fees which result from the suit. The employees who have these agreements are not required to seek other employment or otherwise mitigate any damages they are caused as a result of a change in control, but they are required to keep the Company's confidential information private.

Upon the closing of the sale of the Company's specialty pharmaceutical services business or shortly thereafter, the following Named Officers will no longer be employed by the Company and their change in con-

trol agreements will be triggered: Edward A. Blechschmidt, John J. Collura, and Robert J. Nixon. In addition, upon such closing or shortly thereafter, the following officers will no longer be employed by the Company and their change in control agreements will be triggered: Richard C. Christmas, David C. Silver, and Patricia C. Ma. As a result of these change in control agreements, the Company will be required to pay an aggregate of approximately $6.2 million and provide such other benefits in accordance with the change in control agreements.

The Named Officers (with the exception of Mr. Blechschmidt, who is party to an employment agreement) are parties to severance agreements in connection with their employment with the Company. These severance agreements generally provide that, in the event the officer is terminated other than for cause or has his/her base salary reduced in a situation that is not part of a general salary reduction, the officer has the right to receive payments for periods ranging from twelve to eighteen months in an amount based on that officer's base salary at the time of termination. Additionally, the severance agreements provide that the Company will provide these officers with health benefits based on their benefit levels at the time of termination for the same period or until they obtain similar health benefits elsewhere.

Human Resources and Compensation Committee Report on Executive Compensation

Compensation Philosophy

The Company's executive compensation philosophy is to align the interests of the Company's shareholders and its executive officers, while also promoting teamwork among those executives. The Board of Directors and the Human Resources and Compensation Committee, which administers the Company's executive compensation programs have implemented this philosophy through a compensation program which combines three components: base salary, bonuses and stock options.

Base Salary

The base salaries of executive officers are determined by several factors, including comparisons with industry levels. In addition, salary determinations were made in conjunction with other compensation components discussed herein, to focus attention on Company goals.

Bonuses

The Human Resources and Compensation Committee's policy is to provide a portion of officers' compensation through performance-based and discretionary annual bonuses as incentives to achieve the Company's financial and operational goals and increase shareholder value. The Company's bonus arrangements for its executive officers are intended to make a major portion of each executive officer's compensation dependent on the Company's overall performance. Such bonuses are also intended to link executive compensation to shareholder value and to encourage the executives to act as a team. Bonuses are also intended to recognize the executive's individual contributions to the Company.

Stock Options

The Company's 1999 Stock Incentive Plan is used as a means to attract, retain and motivate selected employees of the Company. The 1999 Stock Incentive Plan provides for the grant to eligible employees of incentive stock options and non-qualified stock options.

Compensation of the Chief Executive Officer

Mr. Blechschmidt's base salary is set at $600,000 per annum under the terms of his employment agreement with the Company.

In determining Mr. Blechschmidt's bonus for fiscal year 2001, the Human Resources and Compensation Committee concluded that the Company had performed well under his leadership, either meeting or making significant progress with respect to its goals and objectives. In recognition of strong individual and Company performance in fiscal year 2001 and consistent with its compensation philosophy, the Human Resources and Compensation Committee awarded Mr. Blechschmidt a bonus of $700,000.

The Human Resources and Compensation Committee granted 60,000 stock options to Mr. Blechschmidt in fiscal year 2001 as long-term incentives, vesting over three years. In determining the number of options granted, the Human Resources and Compensation Committee considered the value of long-term incentives provided by other comparable companies, as reported in surveys. The Human Resources and Compensation Committee also considered Mr. Blechschmidt's total compensation, as well as his past and expected future contributions to the Company's achievement of its long-term performance goals.

Human Resources and Compensation Committee:

Josh S. Weston, Chairman
Stuart R. Levine
Raymond S. Troubh

Compensation of Directors

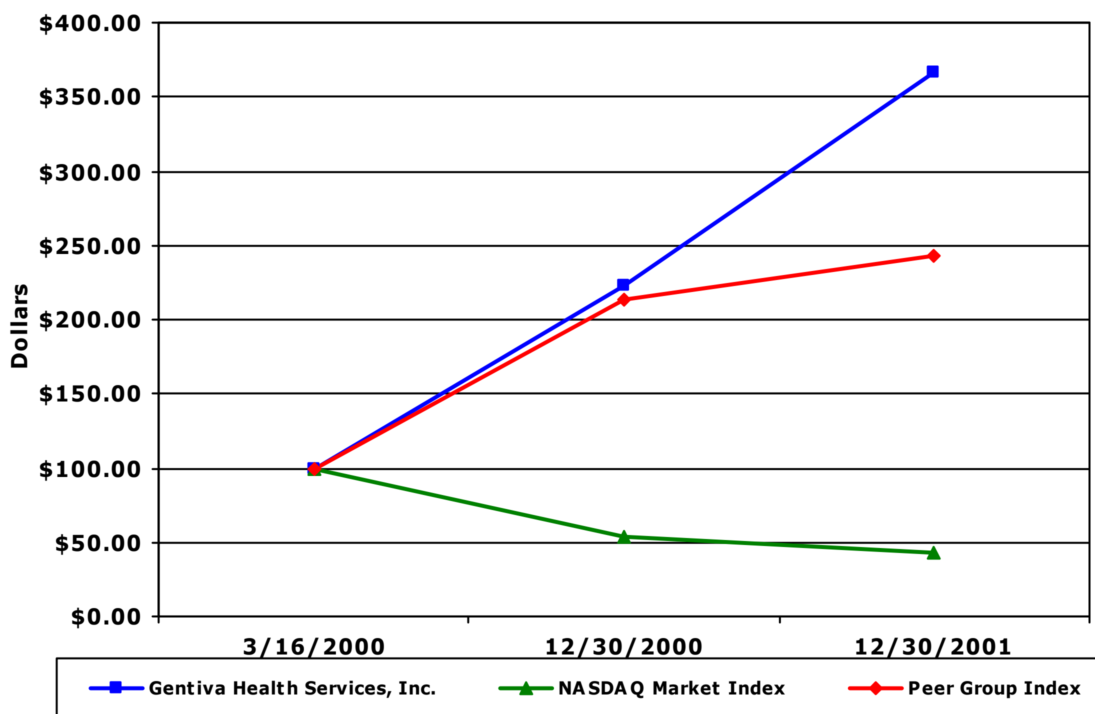
Each non-employee member of the Board of Directors receives an annual retainer fee of $25,000, up to half of which may be paid in cash on a quarterly basis with the remainder paid in shares of the Company's Common Stock. Non-employee directors may also defer the portion of their annual retainer fee paid in shares into a share unit account. In addition, any non-employee directors who serve as chairperson of a committee of the Board receive $2,000 annually for acting as chairperson. Non-employee directors also receive $1,000 for each Board or committee meeting they attend ($500 if attendance is by telephone). All directors, regardless of whether or not they are employees of the Company, receive reimbursement for out-of-pocket expenses incurred in connection with attending meetings of the Board of Directors. After joining the Board, each non-employee director received stock options exercisable for up to 5,000 shares of the Company's Common Stock, with any future grants to be determined by the Board of Directors.

Shareholder Return Performance Graph

Set forth below is a line graph comparing the cumulative total return on the Company's Common Stock against the cumulative total return of the Nasdaq Market Index and a peer issuer group selected by the Company (the "Peer Group Index") for the period commencing on March 16, 2000 (when the Company's Common Stock was first quoted on Nasdaq) and ending December 30, 2001.

The Peer Group Index is comprised of the following publicly traded companies: Accredo Health, Incorporated; Apria Healthcare Group Inc.; Caremark RX, Inc.; Matria Healthcare, Inc.; and Option Care, Inc.

The line graph assumes that $100 was invested on March 16, 2000 in each of the Company's Common Stock, the Nasdaq Market index and the Peer Group Index and that all dividends (if any) were reinvested. Media General Financial Services furnished the data for the graph.



	3/16/00	12/31/00	12/30/01
Gentiva Health Services, Inc.	$100.00	$222.92	$366.67
NASDAQ Market Index	100.00	53.34	42.52
Peer Group Index	100.00	212.92	243.41

Item 12. Securities Ownership of Certain Beneficial Owners and Management.

The following table sets forth, as of March 25, 2002, the amount of beneficial ownership of Gentiva's common stock by the executive officers of Gentiva who are named in the Summary Compensation Table; each director of Gentiva; each beneficial owner of more than five percent of Gentiva's common stock; and all executive officers and directors of Gentiva as a group. For the purpose of the table, a person or group of persons is deemed to have "beneficial ownership" of any shares that such person or group has the right to acquire within 60 days after such date through the exercise of options or exchange or conversion rights, but such shares are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person

Name of Beneficial Owner	Amount of Shares of Common Stock and Nature of Beneficial Ownership(1) (2) (3)(4)	Percent of Class Owned (if more than 1%)
Edward A. Blechschmidt	589,464	2.2%
John J. Collura	66,703	—
E. Rodney Hornbake	18,334	—
Ronald A. Malone	70,703	—
Robert J. Nixon	109,947	—
Victor F. Ganzi	45,257	—
Steven E. Grabowski(5)	1,371,706	5.3%
Stuart R. Levine	34,824	—
Stuart Olsten(6)	1,541,927	5.9%
Raymond S. Troubh(7)	136,021	—
Josh S. Weston	7,800	—
Gail Wilensky	7,562	—
Cheryl Olsten(8)	1,371,706	5.3%
Steinberg Priest Capital Management Company, Inc.(9) 12 East 49th Street New York, NY	1,671,873	6.4%
All executive officers and directors as a group (18 persons)	3,481,184(10)	13.1%

(1) Unless otherwise indicated, the stockholders identified in this table have sole voting and investment power with respect to the shares beneficially owned by them.

(2) Includes beneficial ownership of the following number of shares that may be acquired upon exercise of presently exercisable stock options under Gentiva's stock option plans: Mr. Blechschmidt — 389,464; Mr. Collura — 35,000; Dr. Hornbake — 11,666; Mr. Malone — 39,070; Mr. Nixon — 71,816; Mr. Ganzi — 5,000; Mr. Grabowski — 5,000; Mr. Levine — 5,000; Mr. Olsten — 5,000; Mr. Troubh — 5,000; Mr. Weston — 5,000; and Dr. Wilensky — 5,000.

(3) Includes beneficial ownership of the following number of whole shares acquired and currently held under Gentiva's Employee Stock Purchase Plan: Mr. Collura — 341; Mr. Malone — 3,212; and Mr. Nixon — 2,115.

(4) Includes beneficial ownership of the following number of shares representing the equivalent of units deferred under Gentiva's Stock & Deferred Compensation Plan for Non-Employee Directors Mr. Ganzi — 5,124; Mr. Grabowski — 5,124; Mr. Olsten — 5,124; and Mr. Troubh — 5,124.

(5) Mr. Grabowski's holdings include 1,425 shares owned directly and 1,360,157 shares beneficially owned by his wife, Cheryl Olsten, as to which shares he disclaims beneficial ownership. See footnote (8).

(6) Mr. Stuart Olsten's holdings include 845,813 shares owned directly and 300 shares owned by his wife, as to which shares he disclaims beneficial ownership. Mr. Olsten has shared voting and investment power as a trustee with respect to 630,709 shares owned by a trust for his and his sister's benefit. He has shared voting and investment power as a trustee with respect to 11,250 shares owned by a trust for the benefit of his son, 22,500 shares owned by two trusts for the benefit of his niece and nephew and 20,901 shares owned by a trust for the benefit of his descendants, as to which shares he disclaims beneficial ownership. His holdings further include 330 shares held in a custodial account for his daughter, as to which shares he disclaims beneficial ownership.

(7) Mr. Troubh's holdings include 56,149 shares owned directly and 69,748 shares owned by a limited partnership.

(8) Ms. Cheryl Olsten owns directly 674,797 shares and has shared voting and investment power as a trustee with respect to 630,709 shares owned by a trust for her and her brother's benefit. Ms. Olsten has shared voting and investment power as a trustee with respect to 22,500 shares owned by two trusts for the benefit of her two children, 11,250 shares held by a trust for the benefit of her nephew and 20,901 shares owned by a trust for the benefit of her descendants, as to which shares she disclaims beneficial ownership. Ms. Olsten's holdings also include 11,549 shares beneficially owned by her husband, Mr. Grabowski, as to which shares she disclaims beneficial ownership.

(9) Based on a Schedule 13G (Amendment No. 1) dated January 28, 2002 and filed with the Securities and Exchange Commission, Steinberg Priest Capital Management Company, Inc. held sole voting power as to 780,423 of such shares and sole dispositive power as to 1,671,873 of such shares.

(10) Includes 2,775,487 shares owned by executive officers and directors, 685,201 shares that may be acquired upon exercise of presently exercisable stock options and 20,496 shares representing shares deferred as share units.

Item 13. Certain Relationships and Related Transactions.

Gentiva Obligated Mandatorily Redeemable Preferred Securities of a Subsidiary Trust.

On March 15, 2000 certain of the Company's directors and officers, members of the Olsten family and some other investors, purchased approximately $20 million of 10% convertible trust preferred securities issued by a trust ("Trust"), of which the Company owned all the common equity. The investments were in the following aggregate amounts: Miriam Olsten, $7.35 million; Mr. Blechschmidt, $1.25 million; Stuart Olsten and Cheryl Olsten, $1 million each; Mr. Troubh $650,000; Messrs. Ganzi and Weston, $600,000 each; Mr. Levine $250,000; Messrs. Malone and Nixon, $100,000 each; Mr. Collura and Dr. Hornbake, $50,000 each; Messrs. Christmas, Perry and Silver and Ms. Ma, $25,000 each; other current and former personnel, an aggregate of $350,000; and other investors, an aggregate of $6.55 million. The convertible trust preferred securities were offered in a private placement exempt from the registration requirements of the Securities Act of 1933. The convertible trust preferred securities were convertible into the Company's common stock at a conversion price of $9.319219. The Company made a $618,600 investment in the Trust to acquire its common securities. The Company issued $20,618,600 of convertible subordinated debentures to the Trust on the same terms, including, but not limited to, maturity, interest, conversion and redemption price, as the 10% convertible trust preferred securities in exchange for $20,618,600.

In August 2001 the Company called for redemption all of its outstanding 10% convertible trust preferred securities at a redemption price of 108 percent of their original principal amount. In accordance with the terms of the trust agreement and other related documents, holders were permitted to convert prior to the date called for redemption. All of the convertible trust preferred securities were converted, and none were redeemed. Following conversion of the 10% convertible trust preferred securities held by them, the above-named individuals received whole shares of the Company's common stock as follows: Miriam Olsten, 788,692; Mr. Blechschmidt, 134,131; Stuart Olsten and Cheryl Olsten, 107,305 each; Mr. Troubh, 69,748; Messrs. Ganzi and Weston, 64,383 each; Mr. Levine, 26,826; Messrs. Malone and Nixon, 10,730; Mr. Collura and Dr. Hornbake, 5,365 each; and Messrs. Christmas, Perry and Silver and Ms. Ma, 2,682 each.

Incorrectly Identified Incentive Stock Options

The exercise by Messrs. Blechschmidt, Collura and Nixon of stock options in 2001 which were incorrectly identified by the Company as incentive stock options (instead of as nonqualified stock options) resulted in an acceleration of income tax liability to such individuals and the acceleration of related income tax deductions by the Company. The Company, after consultation with counsel, has agreed to reimburse such individuals, on an after tax basis, for certain costs attributable to the acceleration of their tax liabilities as follows:
Mr. Blechschmidt ($173,721), Mr. Collura ($11,355) and Mr. Nixon ($3,472). The Company has also agreed to reimburse each of them for any penalties resulting from the failure to pay estimated taxes on a timely basis due to such acceleration.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a)(1) Financial Statements

— Report of Independent Accountants

— Consolidated Balance Sheets as of December 30, 2001 and December 31, 2000

— Consolidated Statements of Operations for the three years ended December 30, 2001

— Consolidated Statements of Changes in Shareholders' Equity for the three years ended December 30, 2001

— Consolidated Statements of Cash Flows for the three years ended December 30, 2001

— Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules

— Schedule II - Valuation and Qualifying Accounts for the three years ended December 30, 2001

(a)(3) Exhibits

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of Company(1)
3.2	Restated By-Laws of Company(1)
4.1	Specimen of common stock(3)
4.2	Form of Certificate of Designation of Series A Junior Participating Preferred Stock(1)
4.3	Form of Certificate of Designation of Series A Cumulative Non-Voting Redeemable Preferred Stock(2)
4.4	Trust Agreement among the Company, Wilmington Trust Company, the Administrative Trustees named therein and the holders from time to time of the convertible trust preferred securities dated March 9, 2000(4)
4.5	Indenture between the Company and Wilmington Trust Company dated March 15, 2000(4)
10.1	Separation Agreement dated August 17, 1999, among Olsten Corporation, Aaronco Corp. and Adecco SA(1)*

Exhibit Number	Description
10.2	Omnibus Amendment No. 1 dated October 7, 1999, by and among Olsten Corporation, Aaronco Corp., Adecco SA and Olsten Health Services Holding Corp.(1)
10.3	Form of Rights Agreement dated March 2, 2000 between the Company and EquiServe Limited Partnership, as rights agent(1)
10.4	Company's Executive Officers Bonus Plan(1)*
10.5	Company's 1999 Stock Incentive Plan(4)*
10.6	Company's Stock & Deferred Compensation Plan for Non-Employee Directors (4)*
10.7	Company's Employee Stock Purchase Plan (1)*
10.8	Omnibus Amendment No. 2 dated January 18, 2000, by and among Olsten Corporation, Adecco SA, Olsten Health Services Holding Corp., the Company and Staffing Acquisition Corporation (1)
10.9	Loan and Security Agreement dated March 13, 2000 by and between Fleet Capital Corp., on behalf of the lenders named therein, the Company, Olsten Health Services Holding Corp. and the subsidiaries named therein(4)
10.10	Form of Employment Agreement with Edward A. Blechschmidt (2)*
10.11	Form of Change in Control Agreement with Executive Officers of Company(4) *
10.12	Form of Change in Control Agreement with Edward A. Blechschmidt (4)*
10.13	Form of Severance Agreement with Executive Officers of Company (2)*
10.14	Amendment No. 1 dated June 30, 2000 to Trust Agreement among the Company, Wilmington Trust Company, the Administrative Trustees named therein and the holders from time to time of the convertible trust preferred securities (5)
10.15	Amendment No. 1 dated June 30, 2000 to Indenture between the Company and Wilmington Trust Company (5)
10.16	First Amendment and Consent Agreement dated September 15, 2000 to the Loan Agreement by and among the lending institutions named therein, Fleet Capital Corporation, the Company, Olsten Health Services Holding Corp. and the subsidiaries named therein(6)
10.17	Purchase and Sale Agreement dated August 25, 2000 by and between the Company and InteliStaf Group, Inc. (formerly known as GS Acquisition Co.) (6)
10.18	Second Amendment and Consent Agreement dated as of November 20, 2000 to the Loan Agreement by and among the lending institutions named therein, Fleet Capital Corporation, the Company, Olsten Health Services Holding Corp. and the subsidiaries named therein (7)

Exhibit Number	Description
10.19	Third Amendment dated as of June 1, 2001 to the Loan Agreement by and among the lending institutions named therein, Fleet Capital Corporation, the Company, Olsten Health Services Holding Corp. and the subsidiaries named therein (8)
10.20	Fourth Amendment and Consent Agreement dated as of August 22, 2001 to the Loan Agreement by and among the lending institutions named therein, Fleet Capital Corporation, the Company, Olsten Health Services Holding Corp. and the subsidiaries named therein (10)
10.21	Asset Purchase Agreement, dated as of January 2, 2002, by and between Accredo Health Incorporated, the Company and the Sellers named therein (9)
21.	List of Subsidiaries of Company (10)
23.	Consent of PricewaterhouseCoopers LLP, independent accountants +

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(1) Incorporated herein by reference to Amendment No. 2 to the Registration Statement on Form S-4, dated January 20, 2000 (File No. 333-88663).

(2) Incorporated herein by reference to Amendment No. 3 to the Registration Statement on Form S-4, dated February 4, 2000 (File No. 333-88663).

(3) Incorporated herein by reference to Amendment No. 4 to the Registration Statement on Form S-4, dated February 9, 2000 (File No. 333-88663).

(4) Incorporated herein by reference to Form 10-K of Company for the fiscal year ended January 2, 2000.

(5) Incorporated herein by reference to Form 10-Q of Company for quarterly period ended July 2, 2000.

(6) Incorporated herein by reference to Form 10-Q of Company for quarterly period ended October 1, 2000.

(7) Incorporated herein by reference to Form 10-K of Company for the fiscal year ended December 31, 2000.

(8) Incorporated herein by reference to Form 10-Q of Company for quarterly period ended September 30, 2001.

(9) Incorporated herein by reference to Registration Statement on Form S-4, dated February 8, 2002 (File No. 333-82396), of Accredo Health, Incorporated.

(10) Incorporated herein by reference to Form 10-K of Company for the fiscal year ended December 30, 2001.

* Management contract or compensatory plan or arrangement

\+ Filed herewith

(b) Report on Form 8-K

No reports on Form 8-K were filed during the last quarter of the period covered by this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GENTIVA HEALTH SERVICES, INC.

Date: May 10, 2002

By: /s/ John J. Collura
John J. Collura
Executive Vice President, Chief Financial Officer and Treasurer

GENTIVA HEALTH SERVICES, INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page No.
Report of Independent Accountants	F-2
Consolidated Balance Sheets as of December 30, 2001 and December 31, 2000	F-3
Consolidated Statements of Operations for the three years ended December 30, 2001	F-4
Consolidated Statements of Changes in Shareholders' Equity for the three years ended December 30, 2001	F-5
Consolidated Statements of Cash Flows for the three years ended December 30, 2001	F-6
Notes to Consolidated Financial Statements	F-7
Schedule II - Valuation and Qualifying Accounts for the three years ended December 30, 2001	F-32

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
300 Atlantic Street
P.O.Box 9316
Stamford CT 06904-9316
Telephone (203) 539 3000
Facsimile (203) 539 3001

Report of Independent Accountants

To the Board of Directors and Shareholders of
Gentiva Health Services, Inc. and Subsidiaries:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Gentiva Health Services, Inc. and Subsidiaries (the "Company") at December 30, 2001 and December 31, 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2001 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 6, 2002

GENTIVA HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	December 30, 2001	December 31, 2000
ASSETS		
Current assets		
Cash and cash equivalents	$ 71,999	$ 452
Restricted cash	35,164	—
Receivables, less allowance for doubtful accounts of $88,155 and $105,962, respectively	368,196	419,178
Inventories	47,600	51,111
Prepaid expenses and other current assets	47,396	50,333
Total current assets	570,355	521,074
Fixed assets, net	30,449	36,961
Intangibles, principally goodwill, net of accumulated amortization of $113,977 and $103,573, respectively	220,541	230,702
Other assets	16,989	16,747
TOTAL ASSETS	$ 838,334	$ 805,484
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 57,726	$ 74,083
Accrued expenses	63,874	50,682
Payroll and related taxes	16,094	17,305
Insurance costs	31,460	30,320
Total current liabilities	169,154	172,390
Other liabilities	47,473	46,945
Gentiva-obligated mandatorily redeemable convertible securities of a subsidiary holding solely Gentiva debentures	—	20,000
Shareholders' equity		
Common stock, $.10 par value; authorized 100,000,000 shares, issued and outstanding 25,638,794 and 21,196,693 shares, respectively	2,564	2,120
Additional paid-in capital	722,725	689,163
Accumulated deficit	(103,582)	(124,570)
Accumulated other comprehensive loss	—	(564)
Total shareholders' equity	621,707	566,149
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 838,334	$ 805,484

See notes to consolidated financial statements.

GENTIVA HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	For the Fiscal Years Ended		
	2001	**2000**	**1999**
Net revenues	$ 1,377,687	$ 1,506,644	$ 1,489,822
Cost of services sold	918,608	1,021,644	984,396
Gross profit	459,079	485,000	505,426
Selling, general and administrative expenses	(436,065)	(615,198)	(509,658)
Gain on sale of businesses	—	36,682	—
Interest expense, net	(151)	(9,878)	(16,975)
Income (loss) before income taxes	22,863	(103,394)	(21,207)
Income tax expense (benefit)	1,875	806	(6,121)
Net income (loss)	$ 20,988	$ (104,200)	$ (15,086)
Net income (loss) per share			
Basic	$ 0.91	$ (5.05)	$ (0.74)
Diluted	$ 0.85	$ (5.05)	$ (0.74)
Average shares outstanding			
Basic	23,186	20,637	20,345
Diluted	25,869	20,637	20,345

See notes to consolidated financial statements.

GENTIVA HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF
CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE YEARS ENDED DECEMBER 30, 2001
(In thousands, except share amounts)

	Common Stock		Additional Paid-in	Retained Earnings (Accumulated)	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Deficit	Loss	Total
Balance at January 3, 1999	$20,435,029	$2,035	$567,525	$ (5,284)	$ (2,417)	$ 561,859
Comprehensive income (loss):						
Net loss and cumulative translation adjustment	—	—	—	(15,086)	45	(15,041)
Net transactions with Olsten	—	—	158,473	—	—	158,473
Balance at January 2, 2000	20,345,029	2,035	725,998	(20,370)	(2,372)	705,291
Comprehensive income (loss):						
Net loss	—	—	—	(104,200)	—	(104,200)
Cumulative translation adjustment	—	—	—	—	(176)	(176)
Reversal of cumulative translation adjustment related to Canadian operations sold during the year	—	—	—	—	2,548	2,548
Unrealized loss on investments	—	—	—	—	(564)	(564)
Subtotal	—	—	—	(104,200)	1,808	(102,392)
Net transactions with Olsten	—	—	(41,786)	—	—	(41,786)
Issuance of stock upon exercise of stock options and under stock plans for employees and directors	851,664	85	4,951	—	—	5,036
Balance at December 31, 2000	21,196,693	2,120	689,163	(124,570)	(564)	566,149
Comprehensive income:						
Net income	—	—	—	20,988	—	20,988
Realized loss on investments	—	—	—	—	564	564
Subtotal	—	—	—	20,988	564	21,552
Conversion of Gentiva-obligated mandatorily redeemable convertible securities of a subsidiary holding solely Gentiva debentures	2,146,105	214	19,786	—	—	20,000
Issuance of stock upon exercise of stock options and under stock plans for employees directors	2,296,996	230	13,776	—	—	14,006
Balance at December 30, 2001	$25,638,794	$2,564	$722,725	$ (103,582)	$ —	$ 621,707

See notes to consolidated financial statements.

GENTIVA HEALTH SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the Fiscal Years Ended		
	2001	**2000**	**1999**
OPERATING ACTIVITIES:			
Net income (loss)	$20,988	$(104,200)	$(15,086)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	26,522	31,682	33,625
Provision for doubtful accounts	35,221	144,883	38,687
(Gain) loss on sale of businesses and fixed assets	(255)	(36,682)	1,909
Deferred income taxes	—	774	13,047
Changes in assets and liabilities, net of effects from acquisitions and dispositions:			
Accounts receivable	15,761	(21,339)	(161,829)
Inventories	3,511	42,107	(2,942)
Prepaid expenses and other current assets	2,937	(5,673)	(18,219)
Current liabilities	(13,735)	(63,243)	(29,755)
Other, net	848	2,683	(902)
Net cash provided by (used in) operating activities	91,798	(9,008)	(141,465)
INVESTING ACTIVITIES:			
Purchases of fixed assets, net	(10,067)	(8,549)	(19,001)
Proceeds from sale of businesses and fixed assets	475	67,734	—
Deposits into restricted cash	(35,164)	—	—
Acquisitions of businesses, net of cash acquired	—	—	(1,724)
Net cash (used in) provided by investing activities	(44,756)	59,185	(20,725)
FINANCING ACTIVITIES:			
Issuance of mandatorily redeemable and other securities	—	20,100	—
Net transactions with Olsten	—	5,226	158,473
(Decrease) increase in book overdrafts	(10,379)	(2,285)	12,664
Retirement of long-term debt	—	(78,087)	(6,804)
Debt issuance costs	—	(2,657)	—
Advance from Medicare program	20,878	—	—
Proceeds from issuance of common stock	14,006	5,036	—
Net cash provided by (used in) financing activities	24,505	(52,667)	164,333
Net increase (decrease) in cash and cash equivalents	71,547	(2,490)	2,143
Cash and cash equivalents at beginning of year	452	2,942	799
Cash and cash equivalents at end of year	$ 71,999	$ 452	$ 2,942
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash payments for interest	$ 2,046	$10,346	$ 3,975
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Conversion of convertible preferred trust securities to common stock	$ 20,000	—	—

See notes to consolidated financial statements.

GENTIVA HEALTH SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Background and Basis of Presentation

Background

On March 15, 2000, Gentiva Health Services, Inc. and its Subsidiaries (the "Company") were split-off (the "Split-off") from Olsten Corporation ("Olsten") through the issuance of all of the Company's shares of common stock to Olsten's shareholders and the Company became an independent, publicly-owned company. On such date, Olsten also merged its remaining staffing and information technology businesses with those of Adecco SA pursuant to a Merger Agreement (the "Merger"). Prior to the Split-off, the Company operated Olsten's health services business as a wholly-owned subsidiary of Olsten.

In connection with the Split-off and Merger, the Company entered into a $150 million credit facility as discussed in Note 6, issued mandatorily redeemable and other securities as discussed in Note 7, settled certain transactions with Olsten as discussed in Note 8, and agreed to assume certain obligations and commitments including those described in Notes 8 and 10 and the shareholders of Olsten approved various stock plans for the Company as described in Note 11.

Basis of Presentation

The accompanying consolidated financial statements reflect the financial position, results of operations, changes in shareholders' equity and cash flows of the Company as if it were a separate entity for all periods presented. The consolidated financial statements have been prepared using the historical basis of assets and liabilities and historical results of operations related to the Company.

The Company's selling, general and administrative expenses included a management fee of approximately $1.0 million for fiscal 2000 and $5.0 million for fiscal 1999. This fee represented an allocation of certain general corporate overhead expenses related to Olsten's corporate headquarters. Management believes the allocations related to general corporate overhead expenses were reasonable; however, the costs charged to the Company were not necessarily indicative of the costs that would have been incurred if the Company had been a stand-alone entity during the period for which such expenses were allocated. Subsequent to the Split-off, the Company began to perform these functions using its own resources or purchased services, and additionally, the Company has been responsible for the costs and expenses associated with the management of a public corporation.

Net interest expense as presented in the consolidated statements of operations included net interest expense of approximately $3.0 million for fiscal 2000 and $13.0 million for fiscal 1999 relating to the intercompany balances with Olsten. Such intercompany balances have been reflected as a contribution to capital at January 2, 2000 and as of the Split-off date.

Additionally, prior to the Split-off, income taxes were calculated on a separate company basis. The Company's financial results prior to the Split-off included the costs experienced by the Olsten benefit plans for employees for whom the Company assumed responsibility on the Split-off date. As part of the Split-off and Merger, the Company, Olsten and Adecco SA entered into a Separation Agreement, Tax Sharing Agreement and an Employee Benefits Allocation Agreement, which address the allocation of assets and liabilities and govern future relationships between them.

The Company's Specialty Pharmaceutical Services business integrates the sale of related products and services. It is not practicable to separate product sales from services. As such, the net revenues and cost of ser-

vices sold as presented include revenue and costs derived from both sales of products and related services that are generally integrated under contractual rates.

Note 2. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The Company's fiscal year ends on the Sunday nearest to December 31st, which was December 30, 2001 for fiscal 2001, December 31, 2000 for fiscal 2000 and January 2, 2000 for fiscal 1999.

Revenue Recognition

Revenues and related costs, including labor, payroll taxes, fringe benefits, products and supplies and contractor costs are recognized in the period in which the services and products are provided or delivered. Revenues are recorded based on fee-for-service or capitated agreements with customers and third party payors, estimates of expected reimbursement under arrangements with Medicare and state reimbursed programs, and management fees generated from services provided to hospital-based home health agencies and are adjusted in future periods as final settlements are determined. Net revenues from state reimbursed programs amounted to 21 percent, 21 percent and 20 percent of total consolidated net revenues in fiscal 2001, 2000 and 1999, respectively.

Prior to October 1, 2000, reimbursement of Medicare home care nursing services was based on reasonable, allowable costs incurred in providing services to eligible beneficiaries subject to both per visit and per beneficiary limits in accordance with the Interim Payment System (the "IPS") established through the Balanced Budget Act of 1997. These costs are reported in annual cost reports which are filed with the Center for Medicare and Medicaid Services ("CMS") and are subject to audit. Effective October 1, 2000, the IPS was replaced by a Prospective Payment System ("PPS") for Medicare home care reimbursement. Under PPS, the Company is eligible to receive a fixed reimbursement which covers a specified treatment period for each patient. The reimbursement rate is established based on a clinical assessment of the severity of the patient's condition, service needs and certain other factors. The rate is subject to adjustment if there are significant changes in the patient's condition during the specified treatment period. Medicare billings under PPS are initially recognized as deferred revenue and are subsequently amortized into revenue over the patient's treatment period. Reimbursement rate adjustments are accrued on an estimated basis in the period related services are provided and are adjusted in future periods as final reimbursement rates are determined. Net revenues attributable to the Medicare program as a percentage of total consolidated net revenues were 18 percent in fiscal 2001, 16 percent in fiscal 2000 and 16 percent in fiscal 1999. As of December 30, 2001, deferred revenue of approximately $5.2 million relating to the Medicare PPS program was included in accrued expenses.

Under full risk capitated arrangements with managed care customers, the Company recognizes revenue based on a predetermined monthly contractual rate for each member of the managed care plan regardless of the services provided. Capitation payments received in advance of the service period are recorded as deferred revenue. The Company assumes responsibility for all costs associated with services provided under these capitated arrangements and these costs are accrued in the period they are incurred. The costs of claims incurred but not reported are based on applying actuarial assumptions, historical patterns of utilization to authorized levels of service, current enrollment statistics and other information. Net revenues from capitated agreements with managed care payors as a percentage of total consolidated net revenues were 8 percent, 7 percent and 6 percent in fiscal 2001, 2000 and 1999, respectively. As of December 30, 2001, accrued expenses included estimated amounts payable to third party service providers under managed care contracts of approximately $20.2 million.

Revenues are recorded based on estimated net realizable amounts to be received from patients and commercial and certain government payors under fee-for-service arrangements for services rendered during the period.

Revenue adjustments result from differences between estimated and actual reimbursement amounts, an inability to obtain appropriate billing documentation or authorizations acceptable to the payor and other reasons unrelated to credit risk. Revenue adjustments are deducted directly from gross accounts receivable. Management prepares various analyses to evaluate its receivable valuation accounts including: accounts receivable aging trends, historical collection and write-off data and other statistical information by business line.

One non-governmental customer accounted for approximately 19 percent, 15 percent and 11 percent of total consolidated net revenues in fiscal 2001, 2000 and 1999, respectively. Revenues related to product sales, which are not integrated with services, represented less than 10% of the Company's consolidated revenues.

Accounts receivable included approximately $10 million as of December 30, 2001 and $21 million as of December 31, 2000 which relate to third party settlement and contractual accounts.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates relate to revenue recognition, the collectibility of accounts receivable, the cost of claims incurred but not reported, obligations under workers compensation and professional liability insurance programs and Medicare settlement and investigation issues.

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents and restricted cash deposited with banks and financial institutions include highly liquid investments with original maturities of three months or less.

Restricted cash represents funds held in a segregated account as collateral for a supersedeas bond in the amount of $35.2 million which was posted to satisfy the judgment plus interest in the Fredrickson v. Olsten Health Services Corp. and Olsten Corporation case while the Company pursues its appeal of the judgment as further discussed in Note 9. Interest on the funds accrue to the Company.

Inventories

Inventories consist primarily of biological and pharmaceutical products and supplies held for sale or distribution to patients through prescription. The Company records inventories at the lower of cost or market. Cost represents the weighted average cost of purchased products and supplies.

Fixed Assets

Fixed assets, including costs of Company developed software, are stated at cost and depreciated over the estimated useful lives of the assets using the straight-line method. Leasehold improvements are amortized over the shorter of the life of the lease or the life of the improvement.

Intangibles

Intangibles, principally goodwill, associated with acquired businesses are being amortized on a straight-line basis over periods ranging from 10 to 40 years. Amortization expense recorded for fiscal 2001, 2000 and 1999 was approximately $10.4 million, $11.2 million, and $11.0 million, respectively.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the undiscounted future cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value (discounted future cash flows) and carrying value of the asset. Impairment loss on assets to be sold, if any, is based on the estimated proceeds to be received, less estimated costs to sell.

Insurance Costs

The Company is obligated for certain costs under various insurance programs, including employee health and welfare, workers compensation and professional liability. The Company recognizes its obligations associated with these policies in the period the claim is incurred. The costs of both reported claims and claims incurred but not reported, up to specified deductible limits, relating to these programs are estimated based on historical data, current enrollment statistics and other information. Such estimates and the resulting reserves are reviewed and updated periodically, and any adjustments resulting therefrom are reflected in earnings currently.

Foreign Currency Translation

Prior to the sale of the Company's Canadian operations in November 2000, financial statements denominated in Canadian dollars were translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and a weighted average exchange rate for each period for revenues, expenses, gains and losses and cash flows. Translation adjustments were recorded within accumulated other comprehensive income/loss. As a result of the sale of the Company's Canadian operations, cumulative translation adjustments of approximately $2.5 million were reversed from accumulated other comprehensive loss and reflected as a component of gain on sale of businesses in the accompanying consolidated statement of operations. Transaction gains and losses that arose from exchange rate fluctuations were not significant.

Earnings Per Share

Basic net income (loss) per share for each year presented has been computed by dividing net income (loss) by the weighted average number of shares outstanding for each respective year. Diluted net income (loss) per share for each year presented has been computed using the weighted average number of common equivalent shares outstanding.

During fiscal 2001, the weighted average numbers of shares outstanding were 23,186,000. As discussed in Note 7, the 10 percent convertible preferred trust securities in the amount of $20.0 million were converted into 2,146,105 shares of common stock and such shares were included in the weighted average number of shares outstanding from the date of conversion.

Dilutive common equivalent shares in fiscal 2001 included (i) an incremental 1,454,000 shares that would have been issued if the 10 percent convertible preferred trust securities were converted at the beginning of the year and (ii) 1,229,000 shares that would be issued upon the assumed exercise of stock options under the treasury stock method.

During fiscal 2000, the basic and diluted weighted average numbers of shares outstanding were 20,637,000. The computation of diluted net loss per share for the fiscal 2000 period excluded the effect of shares issuable upon the conversion of the 4 3/4 percent convertible subordinated debentures, which matured and were retired in October 2000, and the 10 percent convertible preferred trust securities and the exercise of stock options since their inclusion would have an antidilutive effect on earnings.

Basic and diluted net loss per share for fiscal 1999 have been computed based solely on the shares of the Company's stock issued on the Split-off date.

Income Taxes

The Company has been included, where applicable, in the consolidated income tax returns of Olsten for periods up to the Split-off date. The provisions for the income taxes in the consolidated statements of operations have been calculated on a separate company basis. The Company provides for taxes based on current taxable income and the future tax consequences of temporary differences between the financial reporting and income tax carrying values of its assets and liabilities. The Company files its own consolidated tax return for periods subsequent to March 15, 2000.

Fair Value of Financial Instruments

The fair value of a financial instrument represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Significant differences can arise between the fair value and carrying amount of financial instruments that are recognized at historical amounts.

The carrying amounts of the Company's cash and cash equivalents and restricted cash accounts receivable, accounts payable and accrued expenses approximate fair value because of their short maturity.

Reclassification

Certain reclassifications have been made to the 2000 and 1999 consolidated financial statements to conform to current year presentation.

Recent Accounting Pronouncements

Goodwill and Other Intangible Assets

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS 142"). Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with SFAS 142. Other intangible assets will continue to be amortized over their estimated useful lives. At December 30, 2001, the Company had net intangible assets, principally goodwill, of $220.5 million, of which approximately $217.3 million related to the Home Health Services business.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in fiscal year 2002. Management does not expect that the new criteria for recording intangible assets separate from goodwill will require the Company to reclassify any of its intangible assets. The Company expects that in fiscal 2002, it will no longer record approximately $10 million of amortization relating to its existing goodwill.

The Company will also perform required impairment tests of goodwill and indefinite lived intangible assets as of the beginning of fiscal year 2002. The Company believes that adoption of SFAS 142 will result in a

writedown for goodwill impairment which will have a material impact on the net income and financial position of the Company's Home Health Services business in the period in which the new accounting principle is adopted; however, implementation of the new SFAS 142 is not expected to have any impact on cash flows from operations. Due to the assumptions and variables involved in determining value of the Company's stock associated with the Home Health Services business, the Company has not yet determined the amount of the goodwill writedown.

Accounting for Impairment and Disposal of Long-Lived Assets

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 "Accounting for Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which supersedes Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS 121"). SFAS 144 further refines SFAS 121's requirement that companies recognize an impairment loss if the carrying amount of a long-lived asset is not recoverable based on its undiscounted future cash flows and measure an impairment loss as the difference between the carrying amount and fair value of the asset. In addition, SFAS 144 provides guidance on accounting and disclosure issues surrounding long-lived assets to be disposed of by a sale. SFAS 144 also extends the presentation of discontinued operations to include more disposal transactions. SFAS 144 is effective for fiscal years beginning after December 15, 2001 (fiscal 2002 for the Company). Management believes that the adoption of SFAS 144 will not have a material effect on the Company's consolidated results of operations or financial position.

Note 3. Acquisitions and Dispositions

In October 2000, the Company consummated the sale of its health care staffing services business and received cash proceeds of $66.5 million. As of December 30, 2001 these proceeds are subject to adjustment (upward or downward) in accordance with the terms of the purchase and sale agreement related to final closing balance sheet items. The Company recorded a gain of approximately $44.4 million on the sale.

In November 2000, the Company finalized the sale of its home care nursing services operations in Canada. As consideration for the sale, the Company received approximately $1.5 million in cash proceeds, including settlement of the final closing balance sheet, and a minority interest in the acquiror. The Company recorded a charge of approximately $5.2 million as a result of the impairment of goodwill due to the pending sale of the business. In addition, cumulative translation adjustments of approximately $2.5 million were reversed from the accumulated other comprehensive loss component of stockholders' equity and reflected as a loss in the gain on sales of businesses component of the consolidated statement of operations. No other gain or loss was recorded on the sale.

Net revenues associated with the Company's health care staffing services business and its Canadian operations amounted to $145 million and $152 million in fiscal 2000 and 1999, respectively.

In 1999, the Company acquired several home care operations for an aggregate purchase price of $1.7 million.

Note 4. Restructuring and Other Special Charges

During fiscal 2001, 2000 and 1999, the Company recorded restructuring and other special charges aggregating $3.0 million, $153.2 million and $15.2 million, respectively.

Fiscal 2001

During the fiscal year of 2001, the Company recorded special charges of approximately $3.0 million in connection with the settlement of the Gile v. Olsten Corporation, et al., and the State of Indiana v. Quantum

Health Resources, Inc. and Olsten Health Services, Inc. lawsuits and for various other legal costs. These legal matters are further discussed in Note 9. These special charges are reflected in selling, general and administrative expenses in the accompanying consolidated statement of operations.

Fiscal 2000

Restructuring and other special charges during fiscal 2000 aggregated $153.2 million, of which $14.9 million was recorded in cost of services sold. The remaining charges of approximately $138.3 million were recorded in selling, general and administrative expenses and included charges to restructure business operations of $5.5 million, an incremental charge of $112.0 million for increases in the allowance for doubtful accounts and receivable writeoffs, charges of $5.7 million associated with the implementation of the PPS for Medicare reimbursement, settlement costs of $7.2 million, Split-off/transition costs of $4.1 million and name change and other costs of $3.8 million. A further description of the nature of such restructuring and other special charges is presented below.

Restructuring of Business Operations

The Company recorded charges of $5.5 million in the fourth quarter of fiscal 2000 in connection with a restructuring plan which included the closing and consolidation of twelve nursing branch locations and the realignment and consolidation of certain corporate and administrative support functions due primarily to the sale of the Company's Staffing Services business and Canadian operations. These charges included employee severance of $2.9 million relating to the termination of 270 employees in nursing branches and certain corporate and administrative departments, asset writedowns of $1.2 million and future lease payments and other associated costs of $1.4 million. As of December 30, 2001, the twelve nursing branch locations were closed or consolidated; the unpaid portion of these restructuring charges aggregated $0.2 million.

Bad Debt/Receivables Write-Off

During fiscal 2000, the Company launched several initiatives including (i) changes to systems, operational processes and procedures in its contracting, delivery, billing and collection functions and inventory management, (ii) development of numerous enhancements to its billing and collection systems, and (iii) hiring of external consultants to pursue focused collection efforts on specific aged accounts receivable. These initiatives are further described herein.

The Specialty Pharmaceutical Services business implemented a new billing and collection system in the fourth quarter of 1999. Difficulties were encountered in the functionality of the new billing system from the date of implementation through the second quarter of 2000 that resulted in an inability to efficiently and effectively bill new accounts and obtain appropriate documentation and support the follow-up of outstanding accounts. During the third quarter of fiscal 2000, the system implementation difficulties were resolved and a significant number of billing and collection system enhancements were made which provided management with new and enhanced information as to the collectibility of receivables that was previously unavailable. This information included historical cash collection data segregated by the time period for which the related revenue was recognized, accounts receivable aging trends by payor source and other statistical data.

In May 2000, with the system enhancements now available, the Company hired an external consultant to undertake an accounts receivable reduction engagement and to enhance the billing and collection processes for both the Specialty Pharmaceutical Services business and the Home Health Services business. During the third quarter of 2000, as a result of the work performed by the consultant and the information resulting from the enhanced billing and collection processes, it was determined that the filing deadlines for submitting certain claims for reimbursement to government and commercial payors had expired and documentation required by payors to support certain other claims could not be located. Furthermore, the results of the consultant's cash collection efforts during the period of its engagement were significantly less than initially estimated.

As a result of the consultant's engagement and the new information that became available from the enhancements to the billing and collection systems and changes in operational processes and procedures, management concluded that certain aged accounts which it previously believed were collectible should be written off because the continuing effort and cost of pursuing collections of these accounts could not be justified. Management decided to focus on the billing and collection activities relating to more current receivable balances.

In connection with these activities, the Company recorded an incremental provision for doubtful accounts of $112.0 million in the third quarter of fiscal year 2000 relating to government and commercial payors, of which $90.0 million related to the Specialty Pharmaceutical Services business and $22.0 million related to the Home Health Services business. The incremental provision for doubtful accounts related to revenues recognized in the following years: $34 million in fiscal 1998 and prior, $52 million in fiscal 1999 and $26 million in fiscal 2000. This incremental provision for doubtful accounts was reflected in selling, general and administrative expenses in the consolidated statement of operations for the year ended December 31, 2000.

PPS Implementation Costs

The Company recorded charges of $5.7 million in connection with the implementation of and transition to the PPS system for Medicare reimbursement. Such charges included costs relating to the development of care protocols, training of field personnel and changes in estimates of settlement amounts.

Settlement Costs

The Company also recorded a $7.2 million charge in the third quarter of fiscal 2000 to reflect estimated settlement costs in excess of insurance coverage relating to class action securities and derivative lawsuits, the obligation for which was assumed by the Company from Olsten under an indemnification provision in connection with the Split-off, as well as settlement costs related to government inquiries in New Mexico and North Carolina (see Note 9).

Split-off/Transition Costs

Special charges of $4.1 million were incurred during fiscal 2000 to reflect obligations resulting from the Company's Split-off from Olsten and transition costs associated with the establishment of the Company as an independent, publicly-owned entity. These special charges included change of control and compensation and benefit payments of $3.6 million made to certain former employees of the Company and Olsten and a current executive officer of the Company, and transition costs of $0.5 million relating to registration costs, professional fees and other items.

Name Change and Other

Special charges of approximately $3.8 million were incurred in fiscal 2000 in connection with the change of the Company's name to Gentiva Health Services, Inc. These special charges primarily consisted of costs incurred and paid for consulting fees, promotional items and advertising.

Costs of Services Sold

An adjustment of $6.4 million was recorded in cost of services sold for changes in cost estimates arising from the systems conversion and physical inventory procedures which were performed during the third quarter of fiscal 2000. The Company recorded a charge to cost of sales of $8.5 million in the fiscal 2000 to reflect an increase in estimated liabilities to service providers under certain managed care contracts. Such changes in the estimated liabilities were the result of the Company obtaining more timely and accurate claim experience information as a result of completing a system conversion which enhanced its claims reporting functionality.

Fiscal 1999

In the quarter ended April 4, 1999, the Company recorded a restructuring charge aggregating $16.7 million. This charge was for the realignment of business units as part of a new restructuring plan, including compensation and severance costs of $5 million to be paid to operational support staff, branch administrative personnel and management, asset write-offs of $6.5 million related primarily to fixed assets being disposed of in offices being closed and facilities being consolidated, as well as fixed assets and goodwill attributable to the Company's exit from certain businesses previously acquired but not within the Company's strategic objectives, and integration costs of $5.2 million, primarily related to obligations under lease agreements for offices and other facilities being closed. As of the end of fiscal 1999, substantially all of the closures and consolidations of facilities and expected terminations have occurred. These activities have resulted in lower costs than originally estimated and, as a result, the Company recognized a benefit of $1.5 million in the fourth quarter of fiscal 1999 to reflect this change in estimate. Such benefit is included in selling, general and administrative expenses.

At January 3, 1999, the Company reflected accrued expenses of $57.6 million representing the unpaid portion of restructuring and special charges recorded in fiscal 1998. The majority of this accrued expense was for the settlement of two federal investigations focusing on the Company's Medicare home office cost reports and certain transactions with Columbia/HCA Healthcare Corporation ("Columbia/HCA"). The agreements in connection with the settlements were finalized and signed on July 19, 1999. On August 11, 1999, Olsten paid $61 million pursuant to the settlement, approximately $5 million of which was accrued as part of the Company's 1996 merger, integration and other special charges.

The major components of the charges as well as the activity during the fiscal years 2001, 2000 and 1999 were as follows (in thousands):

	Settlements	Accounts receivable, net and Other Assets	Compensation and Severance Costs	Integration Costs	Other	Total
Fiscal 1998 Charge						
Balance at January 3, 1999	$ 56,000	$ 98	$ 261	$ 802	$ 476	$ 57,637
Cash expenditures	(56,000)	—	(261)	(588)	(476)	(57,325)
Non cash-write-offs	—	(98)	—	—	—	(98)
Balance at January 2, 2000	—	—	—	214	—	214
Cash expenditures	—	—	—	(214)	—	(214)
Balance at December 31, 2000	—	—	—	—	—	—
Fiscal 1999 Charge	—	6,490	5,020	5,190	—	16,700
Cash expenditures	—	—	(2,787)	(3,310)	—	(6,097)
Non-cash write-offs	—	(6,490)	—	—	—	(6,490)
Adjustments	—	—	(803)	(697)	—	(1,500)
Balance at January 2, 2000	—	—	1,430	1,183	—	2,613
Cash expenditures	—	—	(1,378)	(629)	—	(2,007)
Balance at December 31, 2000	—	—	52	554	—	606
Cash expenditures	—	—	(52)	(380)	—	(432)
Balance at December 30, 2001	—	—	—	174	—	174
Fiscal 2000 Charge	7,200	124,605	2,900	9,413	9,125	153,243
Cash expenditures	(7,200)	—	(880)	(8,906)	—	(16,986)
Non-cash write-offs	—	(124,319)	—	—	—	(124,319)
Balance at December 31, 2000	—	286	2,020	507	9,125	11,938
Cash expenditures	—	—	(1,860)	(480)	(9,125)	(11,465)
Non-cash write-offs	—	(286)	—	—	—	(286)
Balance at December 30, 2001	—	—	160	27	—	187
Fiscal 2001 Charge	2,000	—	—	—	1,011	3,011
Cash expenditures	(2,000)	—	—	—	(1,011)	(3,011)
Balance at December 30, 2001	—	—	—	—	—	—
Balance of all charges combined at December 30, 2001	$ —	$ —	$ 160	$ 201	$ —	$ 361

The balance of unpaid charges at each year-end date was included in accrued expenses in the consolidated balance sheets.

Note 5. Fixed Assets, Net

(in thousands)	Useful Lives	December 30, 2001	December 31, 2000
Computer equipment and software	3-5 Years	$ 64,198	$ 65,617
Furniture and fixtures................................	5 Years	30,077	31,737
Buildings and improvements	Lease Term	19,070	19,056
Machinery and equipment..........................	5 Years	17,070	14,222
		130,415	130,632
Less accumulated depreciation		(99,966)	(93,671)
		$ 30,449	$ 36,961

Depreciation expense was approximately $16.1 million in fiscal 2001, $20.5 million in fiscal 2000 and $22 million in fiscal 1999.

Note 6. Long-Term Debt

On March 13, 2000, the Company entered into a credit facility, which provides for up to $150 million in borrowings, including up to $30 million which is available for letters of credit. The Company may borrow up to a maximum of 80 percent of eligible accounts receivable, as defined. At the Company's option, the interest rate on borrowings under the credit facility is based on the London Interbank Offered Rate (LIBOR) plus 2.5 percent or the lender's prime rate plus 0.25 percent. Total outstanding letters of credit were approximately $25.7 million as of December 30, 2001. There were no borrowings outstanding under the credit facility as of December 30, 2001. The Company is subject to an unused line fee equal to 0.375 percent per annum of the average daily difference between $150 million and the total outstanding borrowings and letters of credit. In addition, the Company must pay a fee equal to 2.25 percent per annum of the aggregate face amount of outstanding standby letters of credit.

In June 2001, the Company's credit facility was amended to increase the portion of the facility available for letters of credit from $30 million to either (i) $40 million or (ii) $70 million in the event that the Company elected to post a letter of credit in lieu of an appellate bond for all or a part of the total amount of the judgment plus interest in the Fredrickson v. Olsten Health Services Corp. and Olsten Corporation case while the Company pursues its appeal of the judgment as further discussed in Note 9. A supersedeas bond in the amount of $35.2 million was posted to satisfy the judgment plus interest. Under the terms of the bond, cash equal to the amount of the bond is held in a segregated account as collateral for the bond and the interest relating thereto accrues to the Company. The cash in the segregated account is reported as restricted cash in the accompanying consolidated balance sheet as of December 30, 2001.

The credit facility, which expires in 2004, includes certain covenants requiring the Company to maintain a minimum tangible net worth and minimum earnings before interest, taxes, depreciation and amortization and provides limitations on certain other activities. Loans under the credit facility will be collateralized by all of the Company's tangible and intangible personal property, other than equipment. In the third quarter of fiscal 2000, the agreement was amended to lower the minimum tangible net worth covenant to $325 million at December 31, 2000 and thereafter increasing by 50 percent of the consolidated net income of the Company. The Company was in compliance with its financial covenants as of December 30, 2001.

In 1993, the Company's Quantum subsidiary, issued $86.3 million of 4 3/4% convertible subordinated debentures maturing on October 1, 2000. In January 1999, $7.7 million of the convertible subordinated debentures were retired at 88.5 percent of the principal amount, resulting in a gain of approximately $900,000. In June 2000, $10.0 million of the debentures were retired at 95.25 percent of the principal amount, resulting in a gain of $475,000. The remaining $68.6 million of debentures were retired, together with accrued interest of approximately $1.6 million, on October 2, 2000 (the first business day after maturity) with borrowings from the

credit facility. Borrowings under the credit facility were repaid in October 2000 upon receipt of proceeds from the sale of the staffing services business as well as cash flow from operations.

Interest expense in the accompanying statements of operations is presented net of interest income of $2,825,000 in fiscal 2001, $803,000 in fiscal 2000 and $336,000 in fiscal 1999.

Note 7. Mandatorily Redeemable and Other Securities

Gentiva Obligated Mandatorily Redeemable Preferred Securities of a Subsidiary Trust

On March 15, 2000, certain of the Company's and Olsten's directors, officers and management and other related parties and other investors purchased $20 million of 10 percent convertible trust preferred securities issued by a Trust, of which the Company owns all the common equity. Simultaneously and in connection with the issuance by the Trust of the convertible trust preferred securities, the Company issued to the Trust $20 million of its 10 percent convertible subordinated debentures. The convertible preferred trust securities would be mandatorily redeemable on March 15, 2005 and may be optionally redeemed after March 15, 2001 and prior to the mandatory redemption date at a declining premium over face amount (8% at March 15, 2001 declining 2% annually through maturity). The convertible subordinated debentures have the same terms as the convertible trust preferred securities, including, but not limited to, maturity, interest, conversion and redemption price.

The Trust which issued the convertible trust preferred securities was a special purpose trust. The Trust's operations were limited to issuing the convertible trust preferred securities and holding the Company's convertible subordinated debentures. The Trust could pay dividends only to the extent that the Company pays interest on its convertible subordinated debentures.

If the Company announces the redemption of its convertible subordinated debentures and, as a result, the Trust intends to redeem the convertible preferred trust securities, the holders of the preferred trust securities have the option to convert their securities into the Company's common stock at a conversion price of $9.319219 until two days before the scheduled redemption date.

On August 7, 2001, the Company's Board of Directors authorized the Company to call for the redemption of its 10 percent convertible subordinated debentures on or about September 14, 2001 at a redemption price of 108 percent of the original principal amount of the debentures in accordance with the terms of an Indenture dated March 15, 2000, between the Company and Wilmington Trust Company. During fiscal year 2001, the Company issued 2,146,105 shares of common stock upon the conversion of $20.0 million of the convertible preferred trust securities. No convertible preferred trust securities were redeemed. As of December 30, 2001, there were no convertible subordinated debentures of the Company and no convertible preferred trust securities of the Trust outstanding.

Cumulative Preferred Stock

The Company's authorized capital stock includes 25,000,000 shares of preferred stock, $.01 par value, of which 1,000 shares have been designated Series A Cumulative Non-voting Redeemable Preferred Stock ("cumulative preferred stock"). On March 10, 2000, 100 shares of cumulative preferred stock were issued for proceeds of $100,000. Such amount is reflected in other liabilities in the consolidated balance sheet as of December 30, 2001 and December 31, 2000.

Holders of the cumulative preferred stock will be entitled to receive cumulative cash dividends at an annual rate of LIBOR plus 2% on the stated liquidation preference of $1,000 per share, payable quarterly in arrears out of assets legally available for payment of dividends, when and as declared by the Company's board of directors on March 31, June 30, September 30 and December 31 of each year, commencing June 30, 2000. Dividends will accumulate and be cumulative from the issue date. In the event of any voluntary or involuntary

liquidation, dissolution or other winding-up of the Company or, at the option of the Company on or after March 10, 2005 or the holder on or after May 10, 2005, the holders of cumulative preferred stock will be entitled to receive the stated liquidation preference or a redemption price of $1,000 per share.

Note 8. Transactions with Olsten

Net transactions with Olsten, included in shareholders' equity, include the accumulated excess of cash outlays made on the Company's behalf and management fees charged to the Company by Olsten over cash receipts generated by the Company. In accordance with the terms of the Separation Agreement, intercompany balances at October 31, 1999 of approximately $507 million have been contributed to the Company's capital in its entirety. The Separation Agreement provides that on October 31, 1999 if the sum of (a) indebtedness for borrowed money, (b) the deferred purchase price of property and (c) up to $10 million of transactions fees related to the transactions contemplated by the Separation Agreement and the Merger Agreement, less cash on hand (referred to as net debt) of Olsten and its subsidiaries (excluding the Company and its subsidiaries) was (i) greater than $750 million, then the new intercompany account would reflect a payable by the Company to Olsten equal to the amount of excess, or (ii) less than $750 million, then the new intercompany account would reflect a payable by Olsten to the Company, in an amount equal to the shortfall or (iii) equal to $750 million, then no payment would be made in connection with the new debt calculation. Pursuant to the Separation Agreement, on October 31, 1999, net debt of Olsten and its subsidiaries (excluding the Company and its subsidiaries) was $718 million and accordingly, the Company was to receive approximately $32 million in cash (referred to as the true-up amount) on or prior to the Split-off date. As of January 2, 2000, the Company had received approximately $23 million of the true-up amount; in fiscal 2000, the Company received the remaining balance of the true-up amount and following the Split-off the Company paid Olsten approximately $13 million to settle the intercompany account balance which primarily related to advances for management fees, additional borrowings and interest expense on intercompany balances.

In addition, under the terms of the Separation Agreement relating to the Split-off, the Company assumed the obligation for the funding of liabilities of the non-qualified supplemental executive retirement plan for certain of its employees and former employees of Olsten. During the first quarter of 2000, payments of $12.1 million were made under this program; these payments exceeded assets of the plan which were transferred to the Company by $3.6 million due primarily to benefits paid to former Olsten employees and a current executive officer of the Company. Furthermore, the Company also assumed excise tax obligations of approximately $0.8 million for a former executive officer of Olsten (and current executive officer of the Company). Approximately $1.0 million of the aggregate net obligations of $4.4 million was included in restructuring and other special charges based on Olsten's allocation methodology for general corporate overhead expenses. The remaining $3.4 million associated with these obligations was charged directly to additional paid-in capital.

In addition, under the terms of the Separation Agreement, the Company also agreed to assume a lease for an Olsten subsidiary, that was unrelated to the operation of the Company, commencing September 2000. In this connection, the present value of future lease obligations and other costs exceed estimated sublease rentals by $1.7 million. Such amount was charged directly to additional paid-in capital during fiscal 2000.

An estimated tax benefit of $4.1 million relating to the aforementioned obligations was credited to additional paid-in capital.

In accordance with the tax sharing agreement governing the Split-off, any net operating losses generated up to the Split-off were to be transferred and utilized by Olsten. Accordingly, on March 15, 2000 the Company transferred approximately $49.7 million of tax benefits relating to those net operating losses to Olsten. Such amount is reflected as a reduction of additional paid-in capital in fiscal 2000.

Olsten used a centralized cash management system. As a result, cash and cash equivalents (other than actual cash on hand) were not allocated to the Company prior to October 31, 1999. On October 31, 1999, the

Company ceased participation in Olsten's cash management system and established its own cash management system.

Included in selling, general and administrative expenses were $0.6 million, and $1.4 million in fiscal 2000 and 1999, respectively, relating to staffing services provided to the Company by Olsten.

Note 9. Legal Matters

Litigation

In addition to the matters referenced below, the Company is party to certain legal actions arising in the ordinary course of business including legal actions arising out of services rendered by its various operations, personal injury and employment disputes.

On November 22, 2000, the jury, in an age-discrimination lawsuit commenced in 1998, captioned Fredrickson v. Olsten Health Services Corp. and Olsten Corporation, Case No. 98 CV 1937, Court of Common Pleas, Mahoning County, Ohio (the "Fredrickson Lawsuit"), returned a verdict in favor of the plaintiff against Olsten consisting of $675,000 in compensatory damages, $30 million in punitive damages and an undetermined amount of attorneys' fees. The jury found that, although Olsten had lawfully terminated the plaintiff's employment, its failure to transfer or rehire the plaintiff rendered Olsten liable to the plaintiff. The parties filed several post-trial motions, and following a March 23, 2001 hearing on the parties' respective post trial motions, the trial court, on May 17, 2001, denied all post-trial motions, and entered judgment for the plaintiff for the full amount of compensatory and punitive damages, and awarded the plaintiff reduced attorney's fees of $247,938. On June 14, 2001, defendants timely filed a notice of appeal with the Court of Appeals, Seventh Appellate District, Mahoning County, Ohio and on June 19, 2001, the Company posted a supersedeas bond for the full amount of the judgment, plus interest. On October 12, 2001, the Company timely filed its appellate brief with the Court of Appeals. Plaintiff filed its response brief on January 14, 2002, and defendants' reply brief was filed on February 8, 2002. Oral arguments have not been scheduled yet. The Company intends to defend itself vigorously in this matter.

On January 2, 2002, Cooper v. Gentiva CareCentrix, Inc. t/a/d/b/a/ Gentiva Health Services, U.S. District Court (W.D. Penn), Civil Action No. 01-0508, an amended complaint was served on the Company alleging that the defendant submitted false claims to the government for payment in violation of the Federal False Claims Act and that the defendant had wrongfully terminated the plaintiff. The plaintiff claimed that infusion pumps delivered to patients did not supply the full amount of medication, allegedly resulting in substandard care and overbilling to the government. Based on a review of the court's docket sheet, the plaintiff filed a complaint under seal in March 2001. In October 2001, the United States Government filed a notice with the court declining to intervene in this matter, and on October 24, 2001, the court ordered that the seal be lifted. Plaintiff filed a motion to amend complaint on December 27, 2001 and served the complaint that same day. Defendant's answer and counterclaim were filed on February 25, 2002. The Company has denied the allegations of wrongdoing in the complaint and intends to defend itself vigorously in this matter. Given the preliminary stage of this litigation, the Company is unable to assess the probable outcome or potential liability, if any, arising from this matter; therefore, a range of damages, if any, cannot be determined.

On November 1, 2001, the Company received notice of the entry of an Order dated October 25, 2001, unsealing a complaint in an action captioned United States of America ex rel. Lee Einer v. Olsten Corporation, No. CIV-S-99-0860 DFL/DAD filed with the U.S. District Court for the Eastern District of California. This civil action was brought pursuant to the False Claims Act. The original sealed complaint was filed in April 1999 and alleged that Olsten falsely took into income during the conversion of its financial data systems alleged overpayments due to payors. In November 2000, plaintiff filed an amended complaint adding the allegation that Olsten made false representations to the United States government in connection with a settlement agreement entered into in July 1999. The Company acknowledged service of the amended complaint on November 29,

2001 and filed its answer and counterclaim on December 3, 2001. Plaintiff filed his reply to counterclaim, counterclaim against the Company and cross claim against the United States government on January 18, 2002. The Company's answer was filed timely on February 12, 2002. The Company believes that it was the filing of the original complaint that triggered the December 1999 document subpoena from the Department of Health and Human Services, Office of Inspector General, which is discussed below under "Government Investigations." Given the preliminary stage of this litigation, the Company is unable to assess the probable outcome or potential liability, if any, arising from this matter; therefore, a range of damages, if any, cannot be determined.

On January 14, 1999, Kimberly Home Health Care, Inc. ("Kimberly"), one of the Company's subsidiaries, initiated three arbitration proceedings against hospitals owned by Columbia/HCA Healthcare Corp. ("Columbia/HCA") with which Kimberly had management services agreements to provide services to the hospitals' home health agencies. The basis for each of the arbitrations is that Columbia/ HCA sold the home health agencies without assigning the management services agreements and, as a result, Columbia/HCA has breached the management services agreements. In response to the arbitrations, Columbia/HCA has asserted that the arbitrations be consolidated and stayed, in part based upon its alleged claims against Kimberly for breach of contract, and requested indemnity and possibly return of management fees. Columbia/HCA has not yet formally presented these claims in the arbitrations or other legal proceedings and has not yet quantified the claims. Still pending before the arbitrators is Columbia/HCA's request to consolidate the proceedings, which Kimberly has opposed. The proceedings are currently in abeyance pending ruling on Columbia/HCA's motion to consolidate. The Company is the claimant in this matter and the defendant has not formally asserted any counterclaims against the Company in the arbitration, nor has the defendant made any formal demand on the Company. The Company is unable to assess the liability or losses, if any, attributable to the threatened counterclaims.

On June 23, 2000, the Company was served with a complaint in a purported class action lawsuit filed by Ultimate Home Health Care Inc. in the U.S. District Court for the Middle District of Tennessee, captioned Ultimate Home Health Care, Inc. v. Columbia/HCA Healthcare Corp., No. 3-00-0560 (the "Tennessee Lawsuit"). On July 21, 2000, the Company was served with an amended complaint in the Tennessee Lawsuit, which named as defendants Columbia/HCA, Columbia Homecare Group, Olsten Health Management a/k/a Hospital Contract Management Services and Olsten Corporation. The amended complaint alleged, among other things, that the defendants' business practices in connection with home health care patient referrals between 1994 and 1996 violated provisions of Federal antitrust laws, the Racketeer Influenced and Corrupt Organizations Act (RICO), the Tennessee Consumer Protection Act and state common law and sought unspecified compensatory damages, punitive damages, treble damages and attorneys' fees on behalf of a proposed class of home healthcare companies and/or agencies which conducted business in Tennessee, Texas, Florida and/or Georgia. By an order dated January 21, 2001, the Court ruled on defendants' motion to dismiss and dismissed plaintiffs' RICO and state common law tort claims, but allowed plaintiff's other claims to proceed to discovery. After conducting some discovery on the issues, on October 10, 2001 plaintiff filed a notice of withdrawal of certain allegations and subsequently filed a second amended complaint that dropped all class action allegations and all antitrust claims. On December 6, 2001 the parties stipulated to the dismissal of the action with each party to bear its own costs, and on December 13, 2001, the court entered an order dismissing the suit in its entirety.

In Gile v. Olsten Corporation, et al., U.S. District Court for the Central District of California, No. 97-9363-NM, plaintiff filed an age discrimination suit against Olsten Corporation, Olsten Health Services, and a certain individual in December 1997. The defendants denied the allegations of discrimination on the basis that plaintiff's termination was part of a reduction in force. The individual defendant was dismissed from the action, and the remaining corporate defendants filed a motion for summary judgment that was granted by the District Court in February 1999. The plaintiff appealed the District Court's order to the Ninth Circuit Court of Appeals and in December, 2000, the Court of Appeals issued its ruling which reversed the District Court and remanded the case for trial. On or about June 19, 2001, the Company and the plaintiff agreed to settle this matter and entered into a confidential settlement agreement with full release.

In July 1999, the Indiana Attorney General's Office filed a lawsuit against Olsten in Indiana Superior Court, captioned State of Indiana v. Quantum Health Resources, Inc. and Olsten Health Services, Inc., No.

49D029907CP001011, alleging that Olsten was overpaid by Medicaid, failed to properly disclose information to Medicaid and engaged in improper billing. The alleged violations predate Olsten's acquisition of Quantum Health Resources in June 1996. The lawsuit sought unspecified monetary damages, double or treble damages, penalties and investigative costs. The parties resolved this matter during fiscal 2001 pursuant to a confidential Settlement agreement and full release. There is no ongoing obligation on the part of the Company arising from this settlement.

In late 2000, after engaging in a mediation conducted by a third-party mediator, the parties to the previously disclosed Class Action (In re Olsten Corporation Securities Litigation, No. 97-CV-5056 (DRH), U.S. District Court for the Eastern District of New York) and Derivative Lawsuit (Rubin v. May, No. 17135-NC, Delaware Chancery Court) reached an agreement to settle both lawsuits for the aggregate sum of $25 million which was subject to approval by the respective courts. The Company's insurers funded $18 million of the proposed settlement sum. The Company funded the $7 million balance and recorded a special charge for that amount during fiscal 2000. On August 7, 2001, the Delaware Chancery Court gave final approval to the settlement of the Derivative Lawsuit and, on August 31, 2001, the District Court issued its final approval to the settlement of the Class Action.

Furthermore, in connection with the Split-Off, the Company agreed to assume, to the extent permitted by law, the liabilities, if any, arising out of (and to indemnify Olsten for) the above lawsuits and arbitration proceedings and other liabilities arising out of the health services business, including any such liabilities arising after the Split-Off in connection with the government investigations described below. In addition, in connection with the pending sale of the Specialty Pharmaceutical Services business, as discussed in note 16, the Company has agreed to retain and indemnify Accredo for specified liabilities including the litigation described above and the government investigations described below.

Government Investigations

In early February 2000, the Company received a document subpoena from the Department of Health and Human Services, Office of Inspector General, and Office of Investigations. The Company believes the subpoena relates to its agencies' cost reporting procedures concerning contracted nursing and home health aide costs. To the Company's knowledge, the government has not filed a complaint against the Company, nor has the government quantified the amount of alleged damages relating to this matter. Recently, the government has asserted that this matter could fall under the Federal False Claims Act (the "Act"), and if liability is found under the Act, the government would be able to assess double or treble damages against the Company. The Company disputes the government's assertions, but continues to cooperate with the government in its investigation of this matter and to provide the government with the requested documents. At this time, the Company is unable to assess the probable outcome or potential liability, if any, arising from this subpoena.

In early December 1999, Olsten received a document subpoena from the Department of Health and Human Services, Office of Inspector General, and Office of Investigations. After preliminary discussions with the Office of Inspector General, the Company believes the subpoena relates to an investigation of possible overpayments to it by the Medicare program. The Company provided the Office of Inspector General and other government agencies with requested documents and cooperated fully with this investigation. On November 1, 2001, the Company received notice of the entry of an Order dated October 25, 2001, unsealing a complaint in an action captioned United States of America ex rel. Lee Einer v. Olsten Corporation, which is discussed above under "Litigation." In connection with the unsealing of the complaint, and as recited in the Order unsealing the complaint, the United States gave notice to the District Court that the United States was declining to intervene in the action. The Company believes that it was this complaint that gave rise to the December 1999 document subpoena, and that following an almost two year investigation into the allegations made in the complaint, the United States decided not to intervene and not to proceed with this action. The Company believes that the government has concluded its investigation into this matter.

Note 10. Commitments

The Company rents certain properties under noncancellable, long-term operating leases, which expire at various dates. Certain of these leases require additional payments for taxes, insurance and maintenance and, in many cases, provide for renewal options. Rent expense under all leases was $23.8 million in 2001, $25.0 million in 2000 and $22.5 million in 1999.

Future minimum rental commitments and sublease rentals for all noncancellable leases having an initial or remaining term in excess of one year at December 30, 2001, including the lease for a former Olsten subsidiary which the Company agreed to assume commencing September 16, 2000 under the terms of the Separation Agreement, are as follows (in thousands):

Fiscal Year	Total Commitment	Sublease Rentals	Net
2002	$23,320	$1,527	$21,793
2003	18,140	1,448	16,692
2004	13,774	1,343	12,431
2005	8,147	890	7,257
2006	2,449	—	2,449
Thereafter	349	—	349

In connection with the Split-off, the Company entered into an agreement on March 16, 2000 pursuant to which a director of the Company and Olsten agreed not to compete with the Company for a four year period. In return for this agreement, the Company paid a lump sum of $250,000. Following the Split-off the Company paid its past president, who did not continue with the Company, $2.0 million pursuant to a change in control agreement. Such amounts were charged to expense in 2000.

Note 11. Stock Plans

Prior to the Split-off, Olsten as sole shareholder of the Company approved the adoption of the Company's 1999 Stock Incentive Plan ("1999 Plan") under which 5 million shares of common stock were reserved for issuance upon exercise of options thereunder. The maximum total number of shares of common stock for which grants may be made to any employee, consultant or director under the 1999 plan in any calendar year is 300,000. These options may be awarded in the form of incentive stock options ("ISOs") or non-qualified stock options ("NQSOs"). The option price of an ISO and NQSO cannot be less than 100 percent and 85 percent, respectively, of the fair market value at the date of grant. As of December 30, 2001, the Company has granted options for 2,063,407 shares.

Prior to the Split-off, Olsten as sole shareholder of the Company approved the adoption of the Company's Stock & Deferred Compensation Plan for Non-Employee Directors, which provides for payment of annual retainer fees to non-employee directors, up to 50 percent of which such directors may elect to receive in cash and the remainder of which will be paid in the form of shares of common stock of the Company and also allows deferral of such payment of shares until termination of director's service. The total number of shares of common stock reserved for issuance under this plan is 150,000. During fiscal 2001 and 2000, the Company issued 3,370 shares and 9,440 shares under the plan; as of December 30, 2001, 20,496 shares were deferred.

Prior to the Split-off, Olsten as sole shareholder of the Company approved the adoption of an employee stock purchase plan for the Company. All employees of the Company, who have been employed for at least eight months and whose customary employment exceeds twenty hours per week, will be eligible to purchase stock under this plan. The human resources and compensation committee of the Company's Board of Directors administers the plan and has the power to determine the terms and conditions of each offering of common stock. The maximum number of shares of common stock, which may be sold to any employee in any offering, however, will generally be 10 percent of that employee's compensation during the period of the offering. A total of

1,200,000 shares of common stock are reserved for issuance under the employee stock purchase plan. During fiscal 2001 and 2000, the Company issued 205,639 shares and 142,788 shares, respectively, under the plan.

Effective as of the Split-off date, all options to purchase Olsten stock ("Olsten stock options") held by the Company's employees became options to purchase the Company's common stock ("Gentiva stock options") and the Company's employees became fully vested in the Gentiva stock options. Olsten stock options were converted into Gentiva stock options at the ratio of 1 to 2.077; the exercise price of a Gentiva stock option represents 48.1 percent of the corresponding Olsten stock option exercise price.

A summary of Gentiva stock options for fiscal 2001 and fiscal 2000 is presented below.

	2001		2000	
	Stock Options	**Weighted average exercise price**	**Stock Options**	**Weighted average exercise price**
Options outstanding, beginning of year	3,689,006	$ —	—	—
Granted in connection with conversion of Olsten options	—	—	3,476,616	6.33
Granted	939,000	13.22	1,124,407	5.88
Exercised	(2,156,796)	6.22	(699,436)	5.51
Cancelled	(124,610)	10.04	(212,581)	10.84
Options outstanding, end of year	2,346,600	$ 8.61	3,689,006	$6.09
Options exercisable, end of year	838,168	$ 5.82	2,683,506	$5.82

A summary of Olsten stock options for the period from January 3, 2000 through March 15, 2000 and fiscal year 1999 for employees assigned to the Company is as follows:

	2000		1999	
	Stock Options	**Weighted average exercise price**	**Stock Options**	**Weighted average exercise price**
Olsten options outstanding, beginning of year	1,697,362	$ 13.15	1,446,067	$ 15.72
Granted	—	—	498,700	7.84
Exercised	(2,720)	8.55	(6,467)	1.28
Cancelled	(20,778)	13.61	(240,938)	16.18
Converted to Gentiva options	(1,673,864)	13.15	—	—
Olsten options exercisable, end of period	—	$ —	1,697,362	$ 13.15
Olsten options exercisable, end of period	—	$ —	633,597	$ 18.77

The weighted average fair value of the Company's and Olsten's stock options, calculated using the Black-Scholes option pricing model, granted during 2001, 2000 and 1999, is $7.76, $2.93 and $3.15, respectively. The fair value of each option grant is estimated on the date of grant with the following weighted-average assumptions used for grants in 2001, 2000 and 1999, respectively; risk-free interest rates of 4.88, 6.14 to 6.65, and 4.70 percent; dividend yield of 0 percent for 2001, 2000 and 1999; expected lives of five years for all; and volatility of 65 percent for 2001, 47 percent for 2000 and 35 percent for 1999.

The following table summarizes information about Gentiva stock options outstanding at December 30, 2001.

	Options Outstanding			Options Exercisable	
Range of exercise price	Number at December 30, 2001	Weighted average exercise price	Weighted average remaining contractual life	Number at December 30, 2001	Weighted average exercise price
$2.86 to $3.49	330,965	$3.40	7.07	330,965	$3.40
$3.61 to $4.39	70,673	3.97	6.82	70,673	3.97
$5.56 to $6.75	748,552	5.72	8.20	136,618	5.69
$6.80 to $8.69	156,724	7.16	5.55	150,058	7.16
$8.92 to $12.50	156,454	10.79	4.57	146,122	10.68
$13.19 to $14.50	875,500	13.20	9.01	—	—
$16.70 to $20.75	7,732	18.75	5.30	3,732	19.38
$2.86 to $20.75	2,346,600	$8.61	7.87	838,168	$5.82

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 (“SFAS No. 123”), “Accounting for Stock-Based Compensation.” Accordingly, no compensation cost has been recognized under the stock option plans. Had compensation cost for the Company’s and Olsten’s stock option plans been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, the Company’s net income (loss) and net income (loss) per share would have been changed to the pro forma amounts indicated below (in thousands, except per share amounts):

	2001	2000	1999
Net income (loss) - as reported	20,988	$(104,200)	$(15,086)
Net income (loss) - pro forma	17,986	(106,052)	(16,864)
Basic income (loss) per share - as reported	0.91	(5.05)	(0.74)
Basic income (loss) per share - pro forma	0.78	(5.14)	(0.83)

Note 12. Income Taxes

Comparative analyses of the provision (benefit) for income taxes follows (in thousands):

	2001	2000	1999
Current			
Federal	$ —	$ —	$(19,586)
State and local	1,875	1,580	170
Foreign	—	—	248
	1,875	1,580	(19,168)
Deferred			
Federal	—	(774)	13,047
State and local	—	—	—
	—	(774)	13,047
	$ 1,875	$ 806	$ (6,121)

A reconciliation of the differences between income taxes computed at Federal statutory rate and provisions (benefits) for income taxes for each year are as follows (in thousands):

	2001	2000	1999
Income taxes computed at Federal statutory tax rate	$ 8,002	$(36,188)	$ (7,422)
State income taxes, net of Federal benefit and valuation allowance	1,219	1,027	111
Capital loss on disposition of domestic subsidiary	—	(14,008)	—
Amortization of intangibles	756	858	902
Nondeductible meals and entertainment	303	312	265
Other	(1)	81	23
(Decrease) Increase in Federal valuation allowance	(8,404)	48,724	—
	$ 1,875	$ 806	$ (6,121)

Deferred tax assets and deferred tax liabilities are as follows (in thousands):

	December 30, 2001	December 31, 2000
Deferred tax assets		
Reserves and allowances	$ 48,663	$ 58,132
Net operating loss (Federal and state)	36,230	31,206
Other	3,347	470
Less: valuation allowance	(57,330)	(57,556)
Total deferred tax asset	30,910	32,252
Deferred tax liabilities		
Capitalized software	(2,035)	(2,130)
Intangible assets	(26,859)	(26,280)
Depreciation	(2,016)	(3,842)
Total deferred tax liability	(30,910)	(32,252)
Net deferred tax asset (liability)	$ —	$ —

In accordance with the Tax Sharing Agreement, any net operating losses generated up to the Split-off are to be allocated to and utilized by Olsten. As of March 15, 2000, approximately $49.7 million of recorded tax benefits related to these net operating losses have been transferred to Olsten. At the end of 2001, Gentiva had a federal net operating loss carryforward of $89.7 million generated after Split-off date, all of which will expire by 2020. Approximately $31.3 million of the net operating loss carry forward relates to stock options, the benefits of which, when realized, will be credited to stockholders' equity.

Realization of deferred tax assets is dependent upon generating sufficient taxable income prior to their expiration. The lack of historical pre-tax income creates uncertainty about the Company's ability to earn taxable income and realize tax benefits in future years. Therefore, management has provided a valuation allowance for its deferred tax assets.

Note 13. Benefit Plans for Permanent Employees

Olsten and its subsidiaries maintained qualified and non-qualified defined contribution retirement plans for its salaried employees, which provide for a partial match of employee savings under the plans and for discretionary profit-sharing contributions based on employee compensation. The Company established similar retire-

ment plans and assumed the obligations under the Olsten plans for those employees assigned to the Company at the date of the Split-off.

Olsten also maintained a non-qualified supplemental executive retirement program for key employees and officers. Certain employees of the Company were eligible to participate in the Olsten sponsored plan. Prior to the Split-off the Company established its own non-qualified supplemental executive retirement plan substantially similar to the Olsten plan. The Olsten plan was terminated prior to the Split-off, and the Company terminated its plan after the Split-off.

With respect to the Company's non-qualified defined contribution retirement plan for salaried employees, all pre-tax contributions, matching contributions and profit sharing contributions (and the earnings therein) are held in a Rabbi Trust and are subject to the claims of the general, unsecured creditors of the Company. All post-tax contributions are held in a secular trust and are not subject to the claims of the creditors of the Company. The fair value of the assets held in the Rabbi Trust and the liability to plan participants as of December 30, 2001 totaling approximately $10.3 million are indicated in other assets and other liabilities on the accompanying consolidated balance sheet.

Company contributions under the defined contribution plans were approximately $3.3 million in 2001, $2.7 million in 2000 and $3.6 million in 1999.

Note 14. Business Segment Information

The Company operates in the United States and, during fiscal 2000 and 1999, operated in Canada, servicing patients and customers through the following business segments: Specialty Pharmaceutical Services, Home Health Services and, for the fiscal 2000 and 1999 periods, Staffing Services. These segments are briefly described below.

Specialty Pharmaceutical Services includes (i) the distribution of drugs and other biological and pharmaceutical products and professional support services for individuals with chronic diseases, such as hemophilia, primary pulmonary hypertension, autoimmune deficiencies and growth disorders, (ii) the administration of antibiotics, chemotherapy, nutrients and other medications for patients with acute or episodic disease states, (iii) distribution services for pharmaceutical, biotechnology and medical service firms and (iv) clinical support services for pharmaceutical and biotechnology firms.

Home Health Services includes (i) professional and paraprofessional services, including skilled nursing, rehabilitation and other therapies, home health aide and personal care services, to individuals with acute illnesses, long-term chronic health conditions, permanent disabilities, terminal illnesses or post-procedural needs and (ii) care management and coordination for managed care organizations and self-insured employees.

Staffing Services included services to institutional, occupational and alternate site health care organizations by providing health care professionals to meet supplemental staffing needs. Canada included professional and paraprofessional services to individuals in home and institutional settings. Both Staffing Services and Canada constituted less than 10 percent of the net revenues, operating contribution and the total assets of the Company and, as such, were combined for segment reporting purposes.

The Company and its chief decision makers evaluate performance and allocate resources based on operating contributions of the reportable segments, which exclude corporate expenses, depreciation, amortization and interest expense, but include revenues and all other costs directly attributable to the specific segment. Intersegment revenues represent Specialty Pharmaceutical Services segment revenues generated from services provided to the Home Health Services segment. Identifiable assets of the segments reflect net accounts receivable and inventories associated with segment activities. All other assets, including goodwill, are assigned to corporate for the benefit of all segments for purposes of segment disclosure.

During fiscal 2001, the Company changed its evaluation performance methodology, as described below, which resulted in a change in reportable segments. In the fiscal 2000 and 1999 periods, clinical support services for the pharmaceutical and biotechnology firms and staffing services provided under a state contract were included in the Staffing Services segment. In 2001, the Company considers these services to be part of the Specialty Pharmaceutical Services segment and Home Health Services segment, respectively. In addition, services relating to care management and coordination for managed care organizations and self-insured employees were allocated between Specialty Pharmaceutical Services and Home Care Nursing Services segments in the fiscal 2000 periods based on the nature of services rendered; in 2001, the Company considers these services to be part of the Home Health Services segment. Furthermore, Canadian operating results were included in the Home Care Nursing Services segment in the prior year periods and are now reflected in the Staffing and Canada results for presentation purposes. Prior year segment data has been reclassified to conform with the current year presentation.

Information about the Company's operations is as follows (in thousands):

	Specialty Pharmaceutical Services	Home Health Services	Staffing and Canada	Total
Year ended December 30, 2001				
Net revenues - segments	$ 739,315	$ 729,577	$ —	$ 1,468,892
Intersegment revenues				(91,205)
Net revenues				$ 1,377,687
Operating contribution	$ 72,945	$ 51,423	$ —	$ 124,368
Corporate expenses				(71,821)
Special charges - corporate				(3,011)
Earnings before interest expense, taxes, depreciation and amortization				49,536
Depreciation and amortization				(26,522)
Interest expense, net				(151)
Income before income taxes				$ 22,863
Segment assets	$ 286,503	$ 140,838	$ —	$ 427,341
Intersegment assets				(11,545)
Segment assets, net				415,796
Corporate assets				422,538
Total assets				$ 838,334

	Specialty Pharmaceutical Services	Home Health Services	Staffing and Canada	Total
Year ended December 31, 2000				
Net revenues - segments	$ 699,327	$ 736,547	$ 145,218	$ 1,581,092
Intersegment revenues				(74,448)
Net revenues				$ 1,506,644
Operating contribution before special charges	$ 84,644	$ 40,317	$ 10,802	$ 135,763
Special charges - segments	(97,025)	(37,966)	—	(134,991)
Operating contribution (loss)	$ (12,381)	$ 2,351	$ 10,802	772
Special charges - corporate				(18,252)
Gain on sales of businesses				36,682
Corporate expenses				(81,036)
Loss before interest expense, taxes, depreciation and amortization				(61,834)
Depreciation and amortization				(31,682)
Interest expense, net				(9,878)
Loss before income taxes				$ (103,394)
Segment assets	$ 302,833	$ 185,208	$ —	$ 488,041
Intersegment assets				(17,752)
Segment assets, net				470,289
Corporate assets				335,195
Total assets				$ 805,484
Year ended January 2, 2000				
Net revenues - segments	$ 665,126	$ 727,228	$ 152,067	$ 1,544,421
Intersegment revenues				(54,599)
Net revenues				$ 1,489,822
Operating contribution before special charges	$ 95,059	$ 26,576	$ 8,970	$ 130,605
Special charges - segments	(1,730)	(13,090)	(380)	(15,200)
Operating contribution	$ 93,329	$ 13,486	$ 9,369	115,405
Corporate expenses				(86,012)
Earnings before interest expense, taxes, depreciation and amortization				29,393
Depreciation and amortization				(33,625)
Interest expense, net				(16,975)
Loss before income taxes				$ (21,207)
Segment assets	$ 414,278	$ 230,323	$ 24,077	$ 668,678
Intersegment assets				—
Segment assets, net				668,678
Corporate assets				394,337
Total assets				$ 1,063,015

Financial information, summarized by geographic area, is as follows (in thousands):

	Net Revenues	Long-lived assets
Year ended December 30, 2001		
United States	$1,377,687	$267,979
Year ended December 31, 2000		
United States	$1,472,316	$281,978
Canada	34,328	2,232
	$1,506,644	$284,410
Year ended January 2, 2000		
United States	$1,446,532	$302,601
Canada	43,290	1,183
	$1,489,822	$303,784

Note 15. Quarterly Financial Information (Unaudited)

	First quarter	Second quarter	Third quarter	Fourth quarter
	(in thousands, except share amounts)			
Year ended December 30, 2001				
Net revenues	$357,178	$335,444	$328,262	$356,803
Gross profit	116,430	113,635	112,100	116,914
Net income	6,112	2,318	6,246	6,312
Net income per share:				
Basic	0.28	0.10	0.26	0.25
Diluted	0.26	0.10	0.24	0.24
Year ended December 31, 2000				
Net revenues	$384,607	$383,270	$380,325	$358,442
Gross profit	128,502	128,624	118,165	109,709
Net income (loss)	(1,906)	2,171	(130,346)	25,881
Net income (loss) per share:				
Basic	(0.09)	0.11	(6.30)	1.23
Diluted	(0.09)	0.10	(6.30)	1.05

During the year ended December 30, 2001, the Company recorded special charges of $3.0 million in the second quarter in connection with the settlement of the Gile v. Olsten Corporation, et al., and the State of Indiana v. Quantum Health Resources, Inc. and Olsten Health Services, Inc. lawsuits and for various other legal costs.

During the year ended December 31, 2000, the Company recorded restructuring and other special charges of $5.6 million in the first quarter, $1.2 million in the second quarter, $126.8 million in the third quarter and $19.6 million in the fourth quarter. In addition, the Company recorded a charge of $5.2 million in the third quarter of fiscal 2000 resulting from impairment of goodwill and gain of $41.9 million in the fourth quarter of fiscal 2000 relating to sales of businesses. The first quarter of 1999 included $16.7 million of special charges and the fourth quarter of 1999 included a benefit of $1.5 million relating to these special charges as indicated in Note 4.

Note 16. Subsequent Event

On January 2, 2002, the Company entered into a definitive agreement with Accredo Health, Incorporated ("Accredo") to sell the assets and business of the Company's Specialty Pharmaceutical Services business, including certain corporate assets and operations, for $415 million, subject to adjustment, to be paid half in cash and half in shares of Accredo common stock provided that the average closing price per share of Accredo common stock on the NASDAQ National Market for the twenty trading days ending on the second trading day prior to the closing of the acquisition is between $31 and $41 per share. If the average closing price is outside of these limits, the number of Accredo shares to be issued will be fixed at the outside levels, and the value of the stock consideration will fluctuate, increasing if the average closing price is above $41 and decreasing if the average closing price is below $31. The purchase price of $415 million is also subject to adjustment for changes in the net book value of the Specialty Pharmaceutical Services business as of the closing date of the acquisition, to the extent that such net book value is outside of the range between $247.5 million and $252.5 million. (At December 30, 2001, the net book value of the Specialty Pharmaceutical Services business was within such range.)

The Company intends to distribute substantially all of the consideration it receives in connection with the sale to shareholders following the closing of the transaction. Management expects that the disposition will be consummated during the second quarter of 2002 and that a gain will be recorded on the disposition.

The Specialty Pharmaceuticals Services business will be treated as a discontinued operation following the date on which shareholders approve the transaction. Subsequent to the closing date of the transaction, the Company intends to operate in the home health services business.

GENTIVA HEALTH SERVICES, INC. AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE THREE YEARS ENDED DECEMBER 30, 2001
(in thousands)

	Balance at Beginning of period	Additions charged to costs and expenses	Deductions	Balance at end of period
Allowance for Doubtful Accounts:				
For the Year Ended December 30, 2001..........	$105,962	$35,221	$(53,028)	$88,155
For the Year Ended December 31, 2000..........	$36,759	$144,883	$(75,680)	$105,962
For the Year Ended January 2, 2000................	$25,596	$38,687	$(27,524)	$36,759