

CHEMED CORP  
Form 10-Q  
July 30, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

(Mark One)

X Quarterly Report Under Section 13 or 15 (d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended June 30, 2010

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 1-8351

CHEMED CORPORATION  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

31-0791746  
(IRS Employer Identification No.)

2600 Chemed Center, 255 E. Fifth Street, Cincinnati,  
Ohio  
(Address of principal executive offices)

45202  
(Zip code)

(513) 762-6900  
(Registrant's telephone number, including area code)

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 periods 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes X No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer X Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No X

Edgar Filing: CHEMED CORP - Form 10-Q

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Amount	Date
Capital Stock \$1 Par Value	22,787,983 Shares	June 30, 2010

-1-

---

CHEMED CORPORATION AND  
SUBSIDIARY COMPANIES

Index

	Page No.
<b><u>PART I. FINANCIAL INFORMATION:</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<u>Unaudited Consolidated Balance Sheet - June 30, 2010 and December 31, 2009</u>	3
<u>Unaudited Consolidated Statement of Income - Three and six months ended June 30, 2010 and 2009</u>	4
<u>Unaudited Consolidated Statement of Cash Flows - Six months ended June 30, 2010 and 2009</u>	5
<u>Notes to Unaudited Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	30
<u>Item 4. Controls and Procedures</u>	30
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	30
<u>Item 1A. Risk Factors</u>	30
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
<u>Item 3. Defaults Upon Senior Securities</u>	31
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	31
<u>Item 5. Other Information</u>	31
<u>Item 6. Exhibits</u>	31
<u>EX - 31.1</u>	
<u>EX - 31.2</u>	
<u>EX - 31.3</u>	
<u>EX - 32.1</u>	
<u>EX - 32.2</u>	
<u>EX - 32.3</u>	
EX - 101.INS	
EX - 101.SCH	

EX - 101.CAL  
EX - 101.LAB  
EX - 101.PRE  
EX - 101.DEF

-2-

---

PART I. FINANCIAL INFORMATION  
Item 1. Financial Statements  
CHEMED CORPORATION AND SUBSIDIARY COMPANIES  
UNAUDITED CONSOLIDATED BALANCE SHEET  
(in thousands, except share and per share data)

	June 30, 2010	December 31, 2009
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 109,080	\$ 112,416
Accounts receivable less allowances of \$13,808 (2009 - \$12,595)	101,736	53,461
Inventories	7,978	7,543
Current deferred income taxes	14,453	13,701
Prepaid income taxes	351	749
Prepaid expenses	10,423	10,388
Total current assets	244,021	198,258
Investments of deferred compensation plans	26,282	24,158
Properties and equipment, at cost, less accumulated depreciation of \$123,209 (2009 - \$115,181)	78,437	75,358
Identifiable intangible assets less accumulated amortization of \$26,582 (2009 - \$25,349)	56,620	57,920
Goodwill	450,105	450,042
Other assets	10,498	13,734
Total Assets	\$865,963	\$819,470
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$49,131	\$52,071
Income taxes	4,783	63
Accrued insurance	34,729	35,161
Accrued compensation	41,613	34,662
Other current liabilities	11,669	14,127
Total current liabilities	141,925	136,084
Deferred income taxes	24,353	25,924
Long-term debt	155,608	152,127
Deferred compensation liabilities	25,374	23,637
Other liabilities	5,736	4,536
Total Liabilities	352,996	342,308
<b>STOCKHOLDERS' EQUITY</b>		
Capital stock - authorized 80,000,000 shares \$1 par; issued 30,202,452 shares (2009 - 29,890,628 shares)	30,202	29,891
Paid-in capital	351,672	335,890
Retained earnings	436,098	403,366
Treasury stock - 7,517,328 shares (2009 - 7,275,070 shares), at cost	(307,003 )	(293,941 )
Deferred compensation payable in Company stock	1,998	1,956

Edgar Filing: CHEMED CORP - Form 10-Q

Total Stockholders' Equity	512,967	477,162
Total Liabilities and Stockholders' Equity	\$865,963	\$819,470

See accompanying notes to unaudited financial statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES  
 UNAUDITED CONSOLIDATED STATEMENT OF INCOME  
 (in thousands, except per share data)

	Three Months Ended June		Six Months Ended June 30,	
	2010	30, 2009	2010	2009
Service revenues and sales	\$314,995	\$295,255	\$623,808	\$590,193
Cost of services provided and goods sold (excluding depreciation)	223,702	207,337	442,839	414,350
Selling, general and administrative expenses	49,956	49,580	98,494	95,373
Depreciation	6,194	5,338	11,663	10,663
Amortization	1,287	1,618	2,511	3,154
Other operating expenses	-	3,444	-	3,989
Total costs and expenses	281,139	267,317	555,507	527,529
Income from operations	33,856	27,938	68,301	62,664
Interest expense	(2,999 )	(3,142 )	(5,951 )	(5,986 )
Other income--net	10	3,358	196	3,082
Income before income taxes	30,867	28,154	62,546	59,760
Income taxes	(12,012 )	(10,904 )	(24,333 )	(23,171 )
Net income	\$18,855	\$17,250	\$38,213	\$36,589
Earnings Per Share				
Net income	\$0.83	\$0.77	\$1.69	\$1.63
Average number of shares outstanding	22,644	22,417	22,608	22,406
Diluted Earnings Per Share				
Net income	\$0.82	\$0.76	\$1.66	\$1.61
Average number of shares outstanding	23,080	22,672	23,012	22,660
Cash Dividends Per Share	\$0.12	\$0.06	\$0.24	\$0.12

See accompanying notes to unaudited financial statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES  
 UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS  
 (in thousands)

	Six Months Ended June 30,	
	2010	2009
Cash Flows from Operating Activities		
Net income	\$38,213	\$36,589
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,174	13,817
Provision for uncollectible accounts receivable	4,863	5,459
Stock option expense	4,397	4,485
Amortization of discount on convertible notes	3,481	3,253
Provision for deferred income taxes	(2,364)	) 317
Noncash long-term incentive compensation	1,580	-
Changes in operating assets and liabilities, excluding amounts acquired in business combinations:		
Increase in accounts receivable	(53,169)	) (11,575)
Increase in inventories	(435)	) (668)
Decrease/(increase) in prepaid expenses	(35)	) 902
Increase/(decrease) in accounts payable and other current liabilities	3,035	(4,005)
Increase/(decrease) in income taxes	6,902	(4,267)
Decrease/(increase) in other assets	(1,935)	) 2,264
Increase/(decrease) in other liabilities	2,938	(3,481)
Excess tax benefit on share-based compensation	(1,802)	) (313)
Other sources	434	343
Net cash provided by operating activities	20,277	43,120
Cash Flows from Investing Activities		
Capital expenditures	(11,942)	) (8,136)
Proceeds from sales of property and equipment	89	1,496
Business combinations, net of cash acquired	(30)	) (1,859)
Other uses	(286)	) (475)
Net cash used by investing activities	(12,169)	) (8,974)
Cash Flows from Financing Activities		
Purchases of treasury stock	(10,125)	) (526)
Dividends paid	(5,481)	) (2,711)
Proceeds from issuance of capital stock	3,475	68
Excess tax benefit on share-based compensation	1,802	313
Decrease in cash overdrafts payable	(1,314)	) (781)
Repayment of long-term debt	-	(9,599)
Net decrease in revolving line of credit	-	(8,200)
Other sources	199	294
Net cash used by financing activities	(11,444)	) (21,142)
(Decrease)/Increase in Cash and Cash Equivalents	(3,336)	) 13,004
Cash and cash equivalents at beginning of year	112,416	3,628
Cash and cash equivalents at end of period	\$109,080	\$16,632



See accompanying notes to unaudited financial statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES  
Notes to Unaudited Financial Statements

1. Basis of Presentation

As used herein, the terms "We," "Company" and "Chemed" refer to Chemed Corporation or Chemed Corporation and its consolidated subsidiaries.

We have prepared the accompanying unaudited consolidated financial statements of Chemed in accordance with Rule 10-01 of SEC Regulation S-X. Consequently, we have omitted certain disclosures required under generally accepted accounting principles in the United States ("GAAP") for complete financial statements. The December 31, 2009 balance sheet data were derived from audited financial statements but do not include all disclosures required by GAAP. However, in our opinion, the financial statements presented herein contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our financial position, results of operations and cash flows. These financial statements are prepared on the same basis as and should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2009.

2. Revenue Recognition

Both the VITAS segment and the Roto-Rooter segment recognize service revenues and sales when the earnings process has been completed. Generally, this occurs when services are provided or products are delivered. VITAS recognizes revenue at the estimated realizable amount due from third-party payers. Medicare payments are subject to certain limitations, as described below.

As of June 30, 2010, VITAS has approximately \$7.6 million in unbilled revenue included in accounts receivable (December 31, 2009 - \$9.9 million). The unbilled revenue at VITAS relates to hospice programs currently undergoing focused medical reviews ("FMR"). During FMR, surveyors working on behalf of the U.S. Federal government review certain patient files for compliance with Medicare regulations. During the time the patient file is under review, we are unable to bill for care provided to those patients. We make appropriate provisions to reduce our accounts receivable balance for potential denials of patient service revenue due to FMR activity.

We actively monitor each of our hospice programs, by provider number, as to their specific admission, discharge rate and median length of stay data in an attempt to determine whether they are likely to exceed the annual per-beneficiary Medicare cap ("Medicare cap"). Should we determine that revenues for a program are likely to exceed the Medicare cap based on projected trends, we attempt to institute corrective action to influence the patient mix or to increase patient admissions. However, should we project our corrective action will not prevent that program from exceeding its Medicare cap, we estimate the amount of revenue recognized during the period that will require repayment to the Federal government under the Medicare cap and record the amount as a reduction to patient revenue. The Medicare cap measurement period is from September 29 through September 28 of the following year for admissions and from November 1 through October 31 of the following year for revenue. During the three-month periods ended June 30, 2010 and 2009, we reversed \$35,000 and \$505,000, respectively of Medicare cap liability recorded during previous quarters due to improved admission trends. For the six month period ended June 30, 2010, we reversed \$1.8 million in Medicare cap liability recorded in the fourth quarter of 2009 for two programs' projected liability for the 2010 measurement period. For the six month period ended June 30, 2009, we reversed \$235,000 for the 2009 measurement period.

The U.S. government revises hospice reimbursement rates on an annual basis using the Hospice Wage Index (HWI) and the Consumer Price Index plus a phase out of the Budget Neutrality Adjustment Factor (BNAF). The HWI is geographically adjusted to reflect local differences in wages. The BNAF is a portion of inflation calculated in prior years that is being eliminated or phased out over a seven year period. In August 2008, the U.S. government

announced a 25% reduction in the BNAF for its fiscal 2009 (October 2008 through September 2009) pursuant to a three year phase-out of the BNAF. The February 2009 American Recovery and Reinvestment Act mandated a one year delay in the BNAF phase-out. In August 2009, the Centers for Medicare and Medicaid Services (CMS) revised the phase-out schedule of the BNAF. CMS reduced the price increase in hospice reimbursement by 10% of the BNAF effective October 1, 2009. The remaining 90% of the BNAF will be phased out over the next six years by revising the October 1 reimbursement adjustment by 15% of the original BNAF inflation factor. Based upon this revised schedule, 100% of the BNAF will be eliminated on October 1, 2015. As a result, included in the six months ended June 30, 2009 results, is \$1.95 million of revenue for the retroactive price increase related to services provided by VITAS in the fourth quarter of 2008.

## 3. Segments

Service revenues and sales and after-tax earnings by business segment are as follows (in thousands):

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Service Revenues and Sales				
VITAS	\$ 226,638	\$ 211,303	\$ 449,578	\$ 419,720
Roto-Rooter	88,357	83,952	174,230	170,473
Total	\$ 314,995	\$ 295,255	\$ 623,808	\$ 590,193
After-tax Earnings				
VITAS	\$ 18,281	\$ 17,122	\$ 36,719	\$ 34,292
Roto-Rooter	8,860	8,798	16,673	17,027
Total	27,141	25,920	53,392	51,319
Corporate	(8,286 )	(8,670 )	(15,179 )	(14,730 )
Net income	\$ 18,855	\$ 17,250	\$ 38,213	\$ 36,589

We report corporate administrative expenses and unallocated investing and financing income and expense not directly related to either segment as "Corporate". Historically, we have recorded stock award amortization as a corporate expense. In the first quarter of 2010, our chief decision maker determined that this was an on-going expense and should be reported within the appropriate business segment. Accordingly, stock award amortization has been reclassified to the corresponding business segment for all periods presented.

## 4. Earnings per Share

Earnings per share are computed using the weighted average number of shares of capital stock outstanding. Earnings and diluted earnings per share for 2010 and 2009 are computed as follows (in thousands, except per share data):

	For the Three Months Ended			Earnings per
	June 30,	Net Income	Shares	Share
2010				
Earnings		\$ 18,855	22,644	\$ 0.83
Dilutive stock options		-	348	
Nonvested stock awards		-	88	
Diluted earnings		\$ 18,855	23,080	\$ 0.82
2009				
Earnings		\$ 17,250	22,417	\$ 0.77
Dilutive stock options		-	214	
Nonvested stock awards		-	41	
Diluted earnings		\$ 17,250	22,672	\$ 0.76

Edgar Filing: CHEMED CORP - Form 10-Q

	For the Six Months Ended June 30,	Net Income	Shares	Earnings per Share
2010				
Earnings		\$ 38,213	22,608	\$ 1.69
Dilutive stock options		-	319	
Nonvested stock awards		-	85	
Diluted earnings		\$ 38,213	23,012	\$ 1.66
2009				
Earnings		\$ 36,589	22,406	\$ 1.63
Dilutive stock options		-	216	
Nonvested stock awards		-	38	
Diluted earnings		\$ 36,589	22,660	\$ 1.61

For the three and six-month periods ended June 30, 2010, 976,000 and 991,000 stock options, respectively were excluded from the computation of diluted earnings per share as their exercise prices were greater than the average market price for most of the period. For the three and six-month periods ended June 30, 2009, 1.8 million stock options were excluded from the computation of diluted earnings per share.

Diluted earnings per share may be impacted in future periods as the result of the issuance of our 1.875% Senior Convertible Notes (the "Notes") and related purchased call options and sold warrants. Per FASB's authoritative guidance on the effect of contingently convertible instruments on diluted earnings per share and convertible bonds with an issuer option to settle for cash upon conversion, we will not include any shares related to the Notes in our calculation of diluted earnings per share until our average stock price for a quarter exceeds the current conversion price. We would then include in our diluted earnings per share calculation those shares issuable using the treasury stock method. The amount of shares issuable is based upon the amount by which the average stock price for the quarter exceeds the conversion price. The purchased call option does not impact the calculation of diluted earnings per share as it is always anti-dilutive. The sold warrants become dilutive when our average stock price for a quarter exceeds the strike price of the warrant.

The following table provides examples of how changes in our stock price impact the number of shares that would be included in our diluted earnings per share calculation. It also shows the impact on the number of shares issuable upon conversion of the Notes and settlement of the purchased call options and sold warrants:

Share Price	Shares Underlying 1.875% Convertible Notes	Warrant Shares	Total Treasury Method Incremental Shares (a)	Shares Due to the Company under Notes Hedges	Incremental Shares Issued/ Received by the Company upon Conversion (b)
\$ 80.73	11,398	-	11,398	(12,194 )	(796 )
\$ 90.73	266,091	-	266,091	(284,657 )	(18,566 )
\$ 100.73	470,215	-	470,215	(503,022 )	(32,807 )
\$ 110.73	637,470	118,682	756,152	(681,947 )	74,205
\$ 120.73	777,018	314,621	1,091,639	(831,231 )	260,408
\$ 130.73	895,216	480,584	1,375,800	(957,676 )	418,124

a) Represents the number of incremental shares that must be included in the calculation of fully diluted shares under U.S. GAAP.

b) Represents the number of incremental shares to be issued by the Company upon conversion of the 1.875% Convertible Notes, assuming concurrent settlement of the note hedges and warrants.

-8-

---

## 5. Long-Term Debt

We are in compliance with all debt covenants as of June 30, 2010. We have issued \$28.3 million in standby letters of credit as of June 30, 2010 for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of June 30, 2010, we have approximately \$146.7 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the expansion feature.

In May 2008, the FASB issued authoritative guidance for accounting for convertible debt instruments that may be settled in cash upon conversion including partial cash settlement. This guidance requires all convertible debentures classified as Instruments B or C to separately account for the debt and equity pieces of the instrument. Convertible debentures classified as Instruments B may be settled in either stock or cash equivalent to the conversion value and convertible debentures classified as Instruments C must settle the accreted value of the obligation in cash and may satisfy the excess conversion value in either cash or stock. At inception of the convertible instrument, cash flows related to the convertible instrument are to be discounted using a market rate of interest. We adopted the provisions of the guidance on January 1, 2009 and applied the guidance retrospectively. Upon adoption, the Notes had a discount of approximately \$55.1 million.

The following amounts are included in our consolidated balance sheet related to the Notes:

	June 30, 2010	December 31, 2009
Principal amount of convertible debentures	\$ 186,956	\$ 186,956
Unamortized debt discount	(31,348 )	(34,829 )
Carrying amount of convertible debentures	\$ 155,608	\$ 152,127
Additional paid in capital (net of tax)	\$ 31,310	\$ 31,310

The following amounts comprise interest expense included in our consolidated income statement (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Cash interest expense	\$ 1,083	\$ 1,346	\$ 2,153	\$ 2,424
Non-cash amortization of debt discount	1,755	1,640	3,480	3,253
Amortization of debt costs	161	156	318	309
Total interest expense	\$ 2,999	\$ 3,142	\$ 5,951	\$ 5,986

The unamortized debt discount will be amortized using the effective interest method over the remaining life of the Notes. The effective rate on the Notes after adoption of the standard is approximately 6.875%.

## 6. Other Operating Expenses

For the three and six-month periods ended June 30, 2010, there were no other operating expenses recorded. For the three and six-month periods ended June 30, 2009, we recorded pretax expenses of \$3.4 million and \$4.0 million, respectively, related to the costs of a contested proxy solicitation.

## 7. Other Income -- Net

Other income -- net comprises the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Market value gains/(losses) on assets held in				
deferred compensation trust	\$ (83 )	\$ 3,199	\$ 105	\$ 1,585
Gain on settlement of company-owned life insurance	-	-	-	1,211
Loss on disposal of property and equipment	(58 )	(78 )	(152 )	(54 )
Interest income	150	207	225	289
Other - net	1	30	18	51
Total other income	\$ 10	\$ 3,358	\$ 196	\$ 3,082

## 8. Stock-Based Compensation Plans

On May 17, 2010 the stockholders approved the adoption of the Company's 2010 Stock Incentive Plan. The Stock Incentive Plan authorizes the issuance or transfer of a maximum of 1,750,000 shares of capital stock pursuant to stock incentives granted to key employees of the Company. Stock incentives granted under the Stock Plan may be in the form of options to purchase capital stock or in the form of capital stock awards.

In April 2010, we met the stock price target of our Long-Term Incentive Plan. The stock price hurdle of \$54.00 was achieved during 30 trading days out of a 60 day trading day period. On April 16, 2010, the Compensation/Incentive Committee of the Board of Directors ("CIC") approved a stock grant of 27,900 shares and the related allocation to participants. The pretax cost of the stock grant was \$1.8 million.

On February 18, 2010, the CIC approved a grant of 47,896 shares of restricted stock to certain key employees. The restricted shares cliff vest four years from the date of issuance. The cumulative compensation expense related to the restricted stock award is \$2.5 million and will be recognized ratably over the four-year vesting period. We assumed no forfeitures in determining the cumulative compensation expense of the grant.

On February 18, 2010, the CIC approved a grant of 515,100 stock options to certain employees. The stock options vest ratably over three years from the date of issuance. The cumulative compensation expense related to the stock option grant is \$7.8 million and will be recognized over the three-year vesting period. We used the Black-Scholes option valuation method to determine the cumulative compensation expense of the grant.

## 9. Independent Contractor Operations

The Roto-Rooter segment sublicenses with sixty-one independent contractors to operate certain plumbing repair and drain cleaning businesses in lesser-populated areas of the United States and Canada. We had notes receivable from our independent contractors as of June 30, 2010 totaling \$1.2 million (December 31, 2009 -\$1.3 million). In most cases these loans are fully or partially secured by equipment owned by the contractor. The interest rates on the loans range from zero to 8% per annum and the remaining terms of the loans range from two months to 5 years at June 30, 2010. During the three months ended June 30, 2010, we recorded revenues of \$5.6 million (2009 - \$5.4 million) and pretax profits of \$2.7 million (2009 - \$2.4 million) from our independent contractors. During the six months ended June 30, 2010, we recorded revenues of \$11.2 million (2009 - \$10.7 million) and pretax profits of \$5.1 million (2009 - \$4.7 million) from our independent contractors.

## 10. Pension and Retirement Plans



All of the Company's plans that provide retirement and similar benefits are defined contribution plans. Expenses for the Company's pension and profit-sharing plans, excess benefit plans and other similar plans were \$2.2 million and \$5.6 million for the three months ended June 30, 2010 and 2009, respectively. Expenses for the Company's pension and profit-sharing plans, excess benefit plans and other similar plans were \$4.7 million and \$7.0 million for the six months ended June 30, 2010 and 2009, respectively.

-10-

---

## 11. Legal and Regulatory Matters

### Litigation

On March 1, 2010 Anthony Morangelli and Frank Ercole filed a class action lawsuit in federal district court for the Eastern District of New York seeking unpaid minimum wages and overtime service technician compensation from Roto-Rooter and Chemed. They also seek payment of penalties, interest and plaintiffs' attorney fees. We contest these allegations. In June 2010, the Court conditionally certified a nationwide class of service technicians, excluding those who signed dispute resolution agreements in which they agreed to arbitrate claims arising out of their employment. There has been no final determination of the merits of collective treatment of the case. The lawsuit is in its early stage and we are unable to estimate our potential liability, if any, with respect to these allegations.

VITAS is party to a class action lawsuit filed in the Superior Court of California, Los Angeles County, in September 2006 by Bernadette Santos, Keith Knoche and Joyce White. This case alleges failure to pay overtime and failure to provide meal and rest periods to a purported class of California admissions nurses, chaplains and sales representatives. The case seeks payment of penalties, interest and Plaintiffs' attorney fees. VITAS contests these allegations. In December 2009, the trial court denied Plaintiffs' motion for class certification. The lawsuit is in its early stages and we are unable to estimate our potential liability, if any, with respect to these allegations.

Regardless of outcome, defense of litigation adversely affects us through defense costs, diversion of our time and related publicity. In the normal course of business, we are a party to various claims and legal proceedings. We record a reserve for these matters when an adverse outcome is probable and the amount of the potential liability is reasonably estimable.

### Regulatory Matters

In April 2005, the Office of Inspector General ("OIG") for the Department of Health and Human Services served VITAS with civil subpoenas relating to VITAS' alleged failure to appropriately bill Medicare and Medicaid for hospice services. As part of this investigation, the OIG selected medical records for 320 past and current patients from VITAS' three largest programs for review. It also sought policies and procedures dating back to 1998 covering admissions, certifications, recertifications and discharges. During the third quarter of 2005 and again in May 2006, the OIG requested additional information from us. The Court dismissed a related qui tam complaint filed in U.S. District Court for the Southern District of Florida with prejudice in July 2007. The plaintiffs appealed this dismissal, which the Court of Appeals affirmed. The government continues to investigate the complaint's allegations. In March 2009, we received a letter from the government reiterating the basis of their investigation.

In May 2009, VITAS received an administrative subpoena from the U.S. Department of Justice requesting VITAS deliver to the OIG documents, patient records, and policy and procedure manuals for headquarters and its Texas programs concerning hospice services provided for the period January 1, 2003 to the date of the letter. In August 2009, the OIG selected medical records for 59 past and current patients from a Texas program for review. In February 2010, VITAS received a companion civil investigative demand from the state of Texas Attorney General's Office, seeking related documents. Based on the early stage of the investigation and the limited information we have at this time, we cannot predict the outcome of this investigation. We believe that we are in material compliance with Medicare and Medicaid rules and regulations applicable to hospice providers.

The costs to comply with either of these investigations were not material for any period presented. We are unable to predict the outcome of these matters or the impact, if any, that the investigation may have on our business, results of operations, liquidity or capital resources. Regardless of outcome, responding to the subpoenas can adversely affect us through defense costs, diversion of our time and related publicity.

## 12. Related Party Agreement

VITAS has pharmacy services agreements ("Agreements") with Omnicare, Inc. and its subsidiaries ("OCR") whereby OCR provides specified pharmacy services for VITAS and its hospice patients in geographical areas served by both VITAS and OCR. The Agreements renew automatically for one-year terms. Either party may cancel the Agreements at the end of any term by giving 90 days prior written notice. VITAS made purchases from OCR of \$8.9 million and \$8.2 million for the three months ended June 30, 2010 and 2009, respectively. VITAS made purchases from OCR of \$17.5 million and \$16.1 million for the six months ended June 30, 2010 and 2009, respectively.

Mr. Joel F. Gemunder, President and Chief Executive Officer of OCR and Ms. Andrea Lindell are directors of both OCR and the Company. Mr. Kevin J. McNamara, President, Chief Executive Officer and a director of the Company, is a director emeritus of OCR. We believe that the terms of the Agreements are no less favorable to VITAS than we could negotiate with an unrelated party.

### 13. Cash Overdrafts Payable

Included in accounts payable at June 30, 2010 is cash overdrafts payable of \$10.4 million (December 31, 2009 - \$11.7 million).

### 14. Financial Instruments

We adopted the provisions of the FASB's authoritative guidance on fair value measurements. This statement defines a hierarchy which prioritizes the inputs in fair value measurements. Level 1 measurements are measurements using quoted prices in active markets for identical assets or liabilities. Level 2 measurements use significant other observable inputs. Level 3 measurements are measurements using significant unobservable inputs which require a company to develop its own assumptions. In recording the fair value of assets and liabilities, companies must use the most reliable measurement available.

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of June 30, 2010 (in thousands):

	Carrying Value	Fair Value Measure Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual fund investments of deferred compensation plans held in trust	\$ 26,282	\$ 26,282	\$ -	\$ -
Long-term debt	155,608	172,701	-	-

For cash and cash equivalents, accounts receivable and accounts payable, the carrying amount is a reasonable estimate of fair value because of the liquidity and short-term nature of these instruments.

### 15. Capital Stock Transactions

On April 26, 2007, our Board of Directors authorized a \$150 million stock repurchase program. On May 19, 2008, our Board of Directors authorized an additional \$56 million to the April 2007 stock repurchase program. For the quarter ended June 30, 2010, we repurchased 114,900 shares at a weighted average cost per share of \$54.99 under the April 2007 program. For the six months ended June 30, 2010, we repurchased 146,275 shares at a weighted average cost per share of \$53.32. For the quarter and six months ended June 30, 2009 there was no stock repurchased.

## 16. Guarantor Subsidiaries

Our 1.875% Notes are fully and unconditionally guaranteed on an unsecured, jointly and severally liable basis by certain of our 100% owned subsidiaries. The following unaudited, condensed, consolidating financial data presents the composition of the parent company (Chemed), the guarantor subsidiaries and the non-guarantor subsidiaries as of June 30, 2010 and December 31, 2009 for the balance sheet, the three and six months ended June 30, 2010 and June 30, 2009 for the income statement and the six months ended June 30, 2010 and June 30, 2009 for the statement of cash flows (dollars in thousands):

June 30, 2010	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS</b>					
Cash and cash equivalents	\$ 105,276	\$(1,238 )	\$ 5,042	\$-	\$ 109,080
Accounts receivable, less allowances	560	100,754	422	-	101,736
Intercompany receivables	-	149,823	-	(149,823 )	-
Inventories	-	7,272	706	-	7,978
Current deferred income taxes	(962 )	15,312	103	-	14,453
Prepaid income taxes	3,424	(2,939 )	(134 )	-	351
Prepaid expenses	1,047	9,326	50	-	10,423
Total current assets	109,345	278,310	6,189	(149,823 )	244,021
Investments of deferred compensation plans	-	-	26,282	-	26,282
Properties and equipment, at cost, less accumulated depreciation	12,987	63,209	2,241	-	78,437
Identifiable intangible assets less accumulated amortization	-	56,620	-	-	56,620
Goodwill	-	445,644	4,461	-	450,105
Other assets	6,373	2,384	1,741	-	10,498
Investments in subsidiaries	677,384	17,356	-	(694,740 )	-
Total assets	\$ 806,089	\$ 863,523	\$ 40,914	\$(844,563 )	\$ 865,963
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Accounts payable	\$(970 )	\$ 49,646	\$ 455	\$-	\$ 49,131
Intercompany payables	143,947	-	5,876	(149,823 )	-
Income taxes	(969 )	6,199	(447 )	-	4,783
Accrued insurance	677	34,052	-	-	34,729
Accrued compensation	2,063	39,026	524	-	41,613
Other current liabilities	1,215	10,346	108	-	11,669
Total current liabilities	145,963	139,269	6,516	(149,823 )	141,925
Deferred income taxes	(11,417 )	43,452	(7,682 )	-	24,353
Long-term debt	155,608	-	-	-	155,608
Deferred compensation liabilities	-	-	25,374	-	25,374
Other liabilities	2,968	2,327	441	-	5,736
Stockholders' equity	512,967	678,475	16,265	(694,740 )	512,967
Total liabilities and stockholders' equity	\$ 806,089	\$ 863,523	\$ 40,914	\$(844,563 )	\$ 865,963

December 31, 2009

Guarantor Non-Guarantor Consolidating

## Edgar Filing: CHEMED CORP - Form 10-Q

	Parent	Subsidiaries	Subsidiaries	Adjustments	Consolidated
<b>ASSETS</b>					
Cash and cash equivalents	\$ 109,331	\$(1,221 )	\$ 4,306	\$-	\$ 112,416
Accounts receivable, less allowances	618	52,303	540	-	53,461
Intercompany receivables	-	149,888	-	(149,888 )	-
Inventories	-	7,009	534	-	7,543
Current deferred income taxes	(378 )	14,048	31	-	13,701
Prepaid expenses	(2,457 )	13,706	(112 )	-	11,137
Total current assets	107,114	235,733	5,299	(149,888 )	198,258
Investments of deferred compensation plans	-	-	24,158	-	24,158
Properties and equipment, at cost, less accumulated depreciation	10,309	62,912	2,137	-	75,358
Identifiable intangible assets less accumulated amortization	-	57,920	-	-	57,920
Goodwill	-	445,662	4,380	-	450,042
Other assets	11,190	2,232	312	-	13,734
Investments in subsidiaries	643,572	15,523	-	(659,095 )	-
Total assets	\$ 772,185	\$ 819,982	\$ 36,286	\$(808,983 )	\$ 819,470
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Accounts payable	\$(2,411 )	\$ 54,084	\$ 398	\$-	\$ 52,071
Intercompany payables	147,744	-	2,144	(149,888 )	-
Income taxes	(2,145 )	2,159	49	-	63
Accrued insurance	1,231	33,930	-	-	35,161
Accrued compensation	4,235	30,020	407	-	34,662
Other current liabilities	1,643	11,367	1,117	-	14,127
Total current liabilities	150,297	131,560	4,115	(149,888 )	136,084
Deferred income taxes	(10,549 )	43,183	(6,710 )	-	25,924
Long-term debt	152,127	-	-	-	152,127
Deferred compensation liabilities	-	-	23,637	-	23,637
Other liabilities	3,148	1,388	-	-	4,536
Stockholders' equity	477,162	643,851	15,244	(659,095 )	477,162
Total liabilities and stockholders' equity	\$ 772,185	\$ 819,982	\$ 36,286	\$(808,983 )	\$ 819,470

Edgar Filing: CHEMED CORP - Form 10-Q

For the three months ended June 30,  
2010

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Continuing Operations					
Service revenues and sales	\$-	\$308,825	\$ 6,170	\$ -	\$314,995
Cost of services provided and goods sold	-	220,455	3,247	-	223,702
Selling, general and administrative expenses	6,508	42,302	1,146	-	49,956
Depreciation	244	5,749	201	-	6,194
Amortization	366	921	-	-	1,287
Total costs and expenses	7,118	269,427	4,594	-	281,139
Income/ (loss) from operations	(7,118 )	39,398	1,576	-	33,856
Interest expense	(2,888 )	(111 )	-	-	(2,999 )
Other (expense)/income - net	3,670	(3,562 )	(98 )	-	10
Income/ (loss) before income taxes	(6,336 )	35,725	1,478	-	30,867
Income tax (provision)/ benefit	2,150	(13,567 )	(595 )	-	(12,012 )
Equity in net income of subsidiaries	23,041	994	-	(24,035 )	-
Net income	\$18,855	\$23,152	\$ 883	\$ (24,035 )	\$18,855

For the three months ended June 30,  
2009

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Continuing Operations					
Service revenues and sales	\$-	\$289,382	\$ 5,873	\$ -	\$295,255
Cost of services provided and goods sold	-	204,416	2,921	-	207,337
Selling, general and administrative expenses	5,783	39,586	4,211	-	49,580
Depreciation	148	5,016	174	-	5,338
Amortization	315	1,303	-	-	1,618
Other operating expenses	3,444	-	-	-	3,444
Total costs and expenses	9,690	250,321	7,306	-	267,317
Income/ (loss) from operations	(9,690 )	39,061	(1,433 )	-	27,938
Interest expense	(2,757 )	(385 )	-	-	(3,142 )
Other income - net	106	38	3,214	-	3,358
Income/ (loss) before income taxes	(12,341 )	38,714	1,781	-	28,154
Income tax (provision)/ benefit	4,148	(14,766 )	(286 )	-	(10,904 )
Equity in net income of subsidiaries	25,443	1,295	-	(26,738 )	-
Net income	\$17,250	\$25,243	\$ 1,495	\$ (26,738 )	\$17,250

For the six months ended June 30, 2010

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Continuing Operations					
Service revenues and sales	\$-	\$611,827	\$ 11,981	\$ -	\$623,808
Cost of services provided and goods sold	-	436,655	6,184	-	442,839
Selling, general and administrative expenses	12,206	83,619	2,669	-	98,494

Edgar Filing: CHEMED CORP - Form 10-Q

Depreciation	380	10,882	401	-	11,663
Amortization	696	1,815	-	-	2,511
Total costs and expenses	13,282	532,971	9,254	-	555,507
Income/ (loss) from operations	(13,282 )	78,856	2,727	-	68,301
Interest expense	(5,739 )	(212 )	-	-	(5,951 )
Other (expense)/income - net	7,291	(7,199 )	104	-	196
Income/ (loss) before income taxes	(11,730 )	71,445	2,831	-	62,546
Income tax (provision)/ benefit	3,894	(27,106 )	(1,121 )	-	(24,333 )
Equity in net income of subsidiaries	46,049	1,820	-	(47,869 )	-
Net income	\$38,213	\$46,159	\$ 1,710	\$ (47,869 )	\$38,213

For the six months ended June 30, 2009

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>Continuing Operations</b>					
Service revenues and sales	\$-	\$578,521	\$ 11,672	\$ -	\$590,193
Cost of services provided and goods sold	-	408,445	5,905	-	414,350
Selling, general and administrative expenses	11,268	79,978	4,127	-	95,373
Depreciation	299	10,023	341	-	10,663
Amortization	590	2,564	-	-	3,154
Other operating expenses	3,989	-	-	-	3,989
Total costs and expenses	16,146	501,010	10,373	-	527,529
Income/ (loss) from operations	(16,146 )	77,511	1,299	-	62,664
Interest (expense)/income	(5,527 )	(465 )	6	-	(5,986 )
Other (expense)/income - net	490	(239 )	2,831	-	3,082
Income/ (loss) before income taxes	(21,183 )	76,807	4,136	-	59,760
Income tax (provision)/ benefit	7,418	(29,216 )	(1,373 )	-	(23,171 )
Equity in net income of subsidiaries	50,354	2,900	-	(53,254 )	-
Net income	\$36,589	\$50,491	\$ 2,763	\$ (53,254 )	\$36,589



Edgar Filing: CHEMED CORP - Form 10-Q

For the six months ended June 30, 2010

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
<b>Cash Flow from Operating Activities:</b>				
Net cash provided/(used) by operating activities	\$(3,737	) \$24,585	\$ (571	) \$20,277
<b>Cash Flow from Investing Activities:</b>				
Capital expenditures	(10	) (11,454	) (478	) (11,942
Business combinations, net of cash acquired	-	83	6	89
Proceeds from sale of property and equipment	-	(30	) -	(30
Other uses - net	(89	) (171	) (26	) (286
Net cash used by investing activities	(99	) (11,572	) (498	) (12,169
<b>Cash Flow from Financing Activities:</b>				
Change in cash overdrafts payable	1,338	(2,652	) -	(1,314
Change in intercompany accounts	9,830	(11,478	) 1,648	-
Dividends paid to shareholders	(5,481	) -	-	(5,481
Purchases of treasury stock	(10,083	) -	(42	) (10,125
Proceeds from exercise of stock options	3,475	-	-	3,475
Realized excess tax benefit on share based compensation	702	1,100	-	1,802
Other sources - net	-	-	199	199
Net cash provided/ (used) by financing activities	(219	) (13,030	) 1,805	(11,444
Net increase/(decrease) in cash and cash equivalents	(4,055	) (17	) 736	(3,336
Cash and cash equivalents at beginning of year	109,331	(1,221	) 4,306	112,416
Cash and cash equivalents at end of period	\$105,276	\$ (1,238	) \$ 5,042	\$109,080

For the six months ended June 30, 2009

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
<b>Cash Flow from Operating Activities:</b>				
Net cash provided/(used) by operating activities	\$(7,802	) \$49,192	\$ 1,730	\$43,120
<b>Cash Flow from Investing Activities:</b>				
Capital expenditures	(13	) (7,912	) (211	) (8,136
Business combinations, net of cash acquired	-	(1,859	) -	(1,859
Proceeds from sale of property and equipment	1,280	216	-	1,496
Other uses - net	(365	) (110	) -	(475
Net cash provided/(used) by investing activities	902	(9,665	) (211	) (8,974
<b>Cash Flow from Financing Activities:</b>				
Change in cash overdrafts payable	1,242	(2,023	) -	(781
Change in intercompany accounts	39,429	(37,625	) (1,804	) -
Dividends paid to shareholders	(2,711	) -	-	(2,711
Purchases of treasury stock	(526	) -	-	(526
Proceeds from exercise of stock options	68	-	-	68
Realized excess tax benefit on share based compensation	313	-	-	313
Repayment of long-term debt	(17,700	) (99	) -	(17,799
Other sources/(uses) - net	(93	) 148	239	294
Net cash provided/ (used) by financing activities	20,022	(39,599	) (1,565	) (21,142
Net increase/(decrease) in cash and cash equivalents	13,122	(72	) (46	) 13,004
Cash and cash equivalents at beginning of year	65	202	3,361	3,628
Cash and cash equivalents at end of period	\$13,187	\$130	\$ 3,315	\$16,632



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

## Executive Summary

We operate through our two wholly owned subsidiaries, VITAS Healthcare Corporation and Roto-Rooter Group, Inc. VITAS focuses on hospice care that helps make terminally ill patients' final days as comfortable as possible. Through its teams of doctors, nurses, home health aides, social workers, clergy and volunteers, VITAS provides direct medical services to patients, as well as spiritual and emotional counseling to both patients and their families. Roto-Rooter's services are focused on providing plumbing and drain cleaning services to both residential and commercial customers. Through its network of company-owned branches, independent contractors and franchisees, Roto-Rooter offers plumbing and drain cleaning service to over 90% of the U.S. population.

The following is a summary of the key operating results for the three and six months ended June 30, 2010 and 2009 (in thousands except per share amounts):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Service revenues and sales	\$ 314,995	\$ 295,255	\$ 623,808	\$ 590,193
Net income	\$ 18,855	\$ 17,250	\$ 38,213	\$ 36,589
Diluted EPS	\$ 0.82	\$ 0.76	\$ 1.66	\$ 1.61
Adjusted EBITDA*	\$ 44,887	\$ 43,650	\$ 87,957	\$ 85,874
Adjusted EBITDA as a % of revenue	14.3	% 14.8	% 14.1	% 14.6

\*See pages 27 - 28 for reconciliation to GAAP measures.

For the three months ended June 30, 2010, the increase in consolidated service revenues and sales was driven by a 7.3% increase at VITAS while Roto-Rooter revenues increased by 5.2%. The increase in service revenues at VITAS was a result of increased average daily census ("ADC") of 5.6%, driven by an increase in admissions of 4.2%, combined with Medicare price increases of approximately 1.3%. Roto-Rooter was driven by an approximate 6.0% price and mix shift increase offset by a 0.7% decrease in job count. Consolidated net income increased 9.3% mainly as a result of the increase in revenues and lower corporate expenses due to the 2009 costs associated with the contested proxy solicitation. Diluted EPS increased as the result of increased earnings. Adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") increased 2.8% from the second quarter of 2009 to the second quarter of 2010.

For the six months ended June 30, 2010, the increase in consolidated service revenues and sales was driven by a 7.1% increase at VITAS and a 2.2% increase at Roto-Rooter. The increase in service revenues at VITAS was a result of increased average daily census ("ADC") of 5.3%, driven by an increase in admissions of 4.5%, combined with Medicare price increases of approximately 1.3%. Roto-Rooter was driven by an approximate 6.3% price and mix shift increase offset by a 4.0% decrease in job count. Consolidated net income increased 4.4% over prior year. Diluted EPS increased as a result of increased earnings. Adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") increased 2.4% for the six month period ended June 30, 2010 compared to the same period in 2009.

EBITDA and Adjusted EBITDA are not measures derived in accordance with GAAP and exclude components that are important to understanding our financial performance. We use Adjusted EBITDA as a measure of earnings for our LTIP awards. We provide EBITDA and Adjusted EBITDA to help readers evaluate our operating results, compare our operating performance with that of similar companies that have different capital structures and help evaluate our ability to meet future debt service, capital expenditure and working capital requirements. Our EBITDA and Adjusted

EBITDA should not be considered in isolation or as a substitute for comparable measures presented in accordance with GAAP. A reconciliation of our net income to our Adjusted EBITDA is presented on pages 27 - 28.

VITAS expects to achieve full-year 2010 revenue growth, prior to Medicare cap, of 6.0% to 7.0%. Admissions are estimated to increase 3.0% to 4.0%. Adjusted EBITDA margin prior to Medicare cap is estimated to be 15.0% to 15.5%. Roto-Rooter expects full-year 2010 revenue growth of 4.0% to 4.5%. The revenue estimate is a result of increased pricing of 3.0%, a favorable mix shift to higher revenue jobs, offset by a job count decline estimated at 2.0% to 4.0%. Adjusted EBITDA margin for 2010 is estimated to be in the range of 17.5% to 18.0%. We anticipate that our operating income and cash flows will be sufficient to operate our businesses and meet any commitments for the foreseeable future.

## Financial Condition

### Liquidity and Capital Resources

Material changes in the balance sheet accounts from December 31, 2009 to June 30, 2010 include the following:

- A \$48.3 million increase in accounts receivable primarily at VITAS, related to timing of Medicare payments and refund of overpayments from prior years.
  - A \$4.7 million increase in income taxes payable, related to timing of payments.

Net cash provided by operating activities decreased \$22.8 million due primarily to the increase in accounts receivable, partially offset by a decrease in accounts payable and other current liabilities. Management continually evaluates cash utilization alternatives, including share repurchase, debt repurchase, acquisitions and increased dividends to determine the most beneficial use of available capital resources.

We have issued \$28.3 million in standby letters of credit as of June 30, 2010, for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of June 30, 2010, we have approximately \$146.7 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the expansion feature. Management believes its liquidity and sources of capital are satisfactory for the Company's needs in the foreseeable future.

### Commitments and Contingencies

Collectively, the terms of our credit agreements require us to meet various financial covenants, to be tested quarterly. In connection therewith, we are in compliance with all financial and other debt covenants as of June 30, 2010 and anticipate remaining in compliance throughout 2010.

On March 1, 2010 Anthony Morangelli and Frank Ercole filed a class action lawsuit in federal district court for the Eastern District of New York seeking unpaid minimum wages and overtime service technician compensation from Roto-Rooter and Chemed. They also seek payment of penalties, interest and Plaintiffs' attorney fees. We contest these allegations. In June 2010, the Court conditionally certified a nationwide class of service technicians, excluding those who signed dispute resolution agreements in which they agreed to arbitrate claims arising out of their employment. There has been no final determination of the merits of collective treatment of the case. The lawsuit is in its early stage and we are unable to estimate our potential liability, if any with respect to these allegations.

VITAS is party to a class action lawsuit filed in the Superior Court of California, Los Angeles County, in September 2006 by Bernadette Santos, Keith Knoche and Joyce White. This case alleges failure to pay overtime and failure to provide meal and rest periods to a purported class of California admissions nurses, chaplains and sales representatives. The case seeks payment of penalties, interest and Plaintiffs' attorney fees. VITAS contests these allegations. In December 2009, the trial court denied Plaintiffs' motion for class certification. The lawsuit is in its early stages and we are unable to estimate our potential liability, if any, with respect to these allegations.

In April 2005, the Office of Inspector General ("OIG") for the Department of Health and Human Services served VITAS with civil subpoenas relating to VITAS' alleged failure to appropriately bill Medicare and Medicaid for hospice services. As part of this investigation, the OIG selected medical records for 320 past and current patients from VITAS' three largest programs for review. It also sought policies and procedures dating back to 1998 covering admissions, certifications, recertifications and discharges. During the third quarter of 2005 and again in May 2006, the OIG requested additional information from us. The Court dismissed a related qui tam complaint filed in U.S. District Court for the Southern District of Florida with prejudice in July 2007. The plaintiffs appealed this dismissal, which the Court of Appeals affirmed. The government continues to investigate the complaint's allegations. In March 2009, we received a letter from the government reiterating the basis of their investigation.

In May 2009, VITAS received an administrative subpoena from the U.S. Department of Justice requesting VITAS deliver to the OIG documents, patient records, and policy and procedure manuals for headquarters and its Texas programs concerning hospice services provided for the period January 1, 2003 to the date of the letter. In August 2009, the OIG selected medical records for 59 past and current patients from a Texas program for review. In February 2010, VITAS received a companion civil investigative demand from the state of Texas Attorney General's office, seeking related documents. Based on the early stage of the investigation and the limited information we have at this time, we cannot predict the outcome of this investigation. We believe that we are in material compliance with Medicare and Medicaid rules and regulations applicable to hospice providers.

We are unable to predict the outcome of these matters or the impact, if any, that the investigation may have on our business, results of operations, liquidity or capital resources. Regardless of outcome, responding to the subpoenas can adversely affect us through defense costs, diversion of our time and related publicity.

## Results of Operations

### Three months ended June 30, 2010 versus 2009 - Consolidated Results

Our service revenues and sales for the second quarter of 2010 increased 6.7% versus services and sales revenues for the second quarter of 2009. Of this increase, \$15.3 million was attributable to VITAS and \$4.4 million was attributable to Roto-Rooter. The following chart shows the components of those changes (dollar amounts in thousands):

	Increase/(Decrease)	
	Amount	Percent
VITAS		
Routine homecare	11,506	7.6 %
Continuous care	1,977	5.6 %
General inpatient	2,322	9.8 %
Medicare cap	(470 )	-93.1 %
Roto-Rooter		
Plumbing	4,039	10.6 %
Drain cleaning	(245 )	-0.7 %
Other	611	5.1 %
Total	\$ 19,740	6.7 %

The increase in VITAS' revenues for the second quarter of 2010 versus the second quarter of 2009 was a result of increased ADC of 5.6% driven by an increase in admissions of 4.2%, combined with Medicare reimbursement rate increases of approximately 1.3%. The ADC increase was driven by a 5.5% increase in routine homecare, an increase of 9.9% in general inpatient and a 3.0% increase in continuous care. In excess of 90% of VITAS' service revenues for the period were from Medicare and Medicaid.

The increase in plumbing revenues for the second quarter of 2010 versus 2009 is attributable to a 6.4% increase in the average price per job and a 4.5% increase in the number of jobs performed. The increase in the plumbing price per job was a combination of increased pricing and favorable job mix shift to more expensive jobs such as excavation. Our excavation job count increased by 18.2% compared to 2009. Drain cleaning revenues for the second quarter of 2010 versus 2009 reflect a 3.2% decline in the number of jobs, while the average price per job increased 2.5%. The increase in other revenues is attributable to an increase in our independent contractor operations and an increase in product sales.

The consolidated gross margin was 29.0% in the second quarter of 2010 as compared with 29.8% in the second quarter of 2009. On a segment basis, VITAS' gross margin was 22.7% in the second quarter of 2010 and 23.3% in the second quarter of 2009. The decrease in VITAS' gross margin is attributable to higher labor costs for admissions and Medicare compliance personnel and the opening of inpatient units which carry significant one time start-up costs as capacity begins to ramp-up. The Roto-Rooter segment's gross margin was 45.2% for the second quarter of 2010 as compared with 46.2% for the second quarter of 2009. The decrease in Roto-Rooter's gross margin was attributable to continued mix shift to excavation which has higher revenue per job but a slightly lower gross margin percentage per job as well as an unfavorable adjustment to casualty insurance.





Selling, general and administrative expenses ("SG&A") for the second quarter of 2010 and 2009 comprise (in thousands):

	2010	2009
SG&A expenses before long-term incentive compensation and the impact of market gains and losses of deferred compensation plans	48,240	46,381
Long-term incentive compensation	1,799	-
Impact of market value gains/(losses) on liabilities held in deferred compensation trusts	(83	) 3,199
Total SG&A expenses	\$ 49,956	\$ 49,580

Normal salary increases and revenue related expense increases between periods account for the change in SG&A from \$46.4 million in the second quarter of 2009 to \$48.2 million in the second quarter of 2010.

Depreciation expense increased \$856,000 to \$6.2 million in the second quarter of 2010 due to the installation of patient capture software at our VITAS segment.

Other income for the second quarter of 2010 and 2009 comprise (in thousands):

	2010	2009
Interest income	150	207
Market value gains/(losses) on assets held in deferred compensation trusts	(83	) 3,199
Loss on disposal of property and equipment	(58	) (78
Other	1	30
Total other income	\$ 10	\$ 3,358

Our effective income tax rate of 38.9% in the second quarter of 2010 was essentially flat with the second quarter of 2009.

Net income for both periods included the following after-tax items/adjustments that increased/ (reduced) after-tax earnings (in thousands):

	2010	2009
VITAS		
Costs associated with the OIG investigation	\$(74	) \$(53
Roto-Rooter		
Costs of class action lawsuit	(63	) -
Corporate		
Stock option expense	(1,484	) (1,544
Long-term incentive compensation	(1,124	) -
Noncash interest expense related to accounting for conversion feature of the convertible notes	(1,068	) (987
Expenses of contested proxy solicitation	-	(2,180
Impact of non-deductible losses and non-taxable gains on investments held in deferred compensation trusts	-	20
Total	\$(3,813	) \$(4,744



## Three months ended June 30, 2010 versus 2009 - Segment Results

The change in after-tax earnings for the second quarter of 2010 versus the second quarter of 2009 is due to (dollars in thousands):

	Increase/(Decrease)		
	Amount	Percent	
VITAS	\$ 1,159	6.8	%
Roto-Rooter	62	0.7	%
Corporate	384	4.4	%
	\$ 1,605	9.3	%

## Six months ended June 30, 2010 versus 2009 - Consolidated Results

Our service revenues and sales for the first six months of 2010 increased 5.7% versus services and sales revenues for the first six months of 2009. Of this increase, \$29.8 million was attributable to VITAS and \$3.8 million was attributable to Roto-Rooter. The following chart shows the components of those changes (dollars in thousands):

	Increase/(Decrease)		
	Amount	Percent	
VITAS			
Routine homecare	\$ 21,678	7.2	%
Continuous care	5,060	7.3	%
General inpatient	3,522	7.2	%
Medicare cap	1,548	658.7	%
BNAF	(1,950 )	-100.0	%
Roto-Rooter			
Plumbing	5,167	6.8	%
Drain cleaning	(2,188 )	-3.1	%
Other	778	3.2	%
Total	\$ 33,615	5.7	%

The increase in VITAS' revenues for the first six months of 2010 versus the first six months of 2009 was a result of increased ADC of 5.3% driven by an increase in admissions of 4.5%, combined with Medicare reimbursement rate increases of approximately 1.3%. The ADC increase was driven by a 5.3% increase in routine homecare, an increase of 7.6% in general inpatient and a 4.8% increase in continuous care. In excess of 90% of VITAS' service revenues for the period were from Medicare and Medicaid.

The increase in plumbing revenues for the first six months of 2010 versus 2009 is attributable to a 7.8% increase in the average price per job and a 0.5% decrease in the number of jobs performed. The increase in the plumbing price per job was a combination of increased pricing and favorable job mix shift to more expensive jobs such as excavation. Our excavation job count increased by 15.5% compared to 2009. Drain cleaning revenues for the first six months of 2010 versus 2009 reflect a 5.7% decline in the number of jobs, while the average price per job increased 2.7%. The increase in other revenues is attributable to an increase in our independent contractor operations and an increase in product sales.

The consolidated gross margin was 29.0% in the first six months of 2010 as compared with 29.8% in the first six months of 2009. On a segment basis, VITAS' gross margin was 22.7% in the first six months of 2010 and 23.3% in

the first six months of 2009. The decrease in VITAS' gross margin is attributable to higher labor costs for admissions and Medicare compliance personnel and the opening of inpatient units which carry significant one time start-up costs as capacity begins to ramp-up. The Roto-Rooter segment's gross margin was 45.2% for the first six months of 2010 as compared with 45.7% for the first six months of 2009. The decrease in Roto-Rooter's gross margin is attributable to continued mix shift to excavation which has higher revenue per job but slightly lower gross margin percentage per job.

Edgar Filing: CHEMED CORP - Form 10-Q

Selling, general and administrative expenses ("SG&A") for the six months of 2010 and 2009 comprise (in thousands):

	2010	2009
SG&A expenses before long-term incentive compensation and the impact of market gains and losses of deferred compensation plans	\$ 96,590	\$ 93,788
Long-term incentive compensation	1,799	-
Impact of market value gains/(losses) on liabilities held in deferred compensation trusts	105	1,585
Total SG&A expenses	\$ 98,494	\$ 95,373

Normal salary increases and revenue related expense increases between periods account for the change in SG&A from \$93.8 million for the first six months of 2009 to \$96.6 million of the first six months of 2010.

Depreciation expense increased \$1.0 million in the first six months of 2010 to \$11.7 million due to the installation of patient capture software at our VITAS segment.

Other income for the first six months of 2010 and 2009 comprise (in thousands):

	2010	2009
Interest income	225	289
Market value gains/(losses) on assets held in deferred compensation trusts	105	1,585
Loss on disposal of property and equipment	(152 )	(54 )
Non-taxable income from certain investments held in deferred compensation trusts	-	1,211
Other	18	51
Total other income	\$ 196	\$ 3,082

Our effective income tax rate of 38.9% in the first six months of 2010 was essentially flat with the first six months of 2009.

Net income for both periods included the following after-tax items/adjustments that increased/ (reduced) after-tax earnings (in thousands):

	2010	2009
VITAS		
Costs associated with the OIG investigation	\$(173 )	\$(61 )
Roto-Rooter		
Costs of class action lawsuit	(63 )	-
Corporate		
Stock option expense	(2,782 )	(2,836 )
Long-term incentive compensation	(1,124 )	-
Noncash interest expense related to accounting for conversion feature of the convertible notes	(2,115 )	(1,955 )
Expenses of contested proxy solicitation	-	(2,525 )
Impact of non-deductible losses and non-taxable gains on investments held in deferred compensation trusts	-	756
Total	\$ (6,257 )	\$ (6,621 )



Six months ended June 30, 2010 versus 2009 - Segment Results

The change in after-tax earnings for the first six months of 2010 versus the first six months of 2009 is due to (dollars in thousands):

	Increase/(Decrease)		
	Amount	Percent	
VITAS	\$ 2,427	7.1	%
Roto-Rooter	(354 )	-2.1	%
Corporate	(449 )	-3.0	%
	\$ 1,624	4.4	%

-22-

---

CHEMED CORPORATION AND SUBSIDIARY COMPANIES  
CONSOLIDATING STATEMENT OF INCOME  
FOR THE THREE MONTHS ENDED JUNE 30, 2010  
(in thousands)(unaudited)

2010 (a)	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Service revenues and sales	\$226,638	\$88,357	\$-	\$ 314,995
Cost of services provided and goods sold	175,257	48,445	-	223,702
Selling, general and administrative expenses	18,404	24,192	7,360	49,956
Depreciation	4,103	1,950	141	6,194
Amortization	788	132	367	1,287
Total costs and expenses	198,552	74,719	7,868	281,139
Income/(loss) from operations	28,086	13,638	(7,868)	) 33,856
Interest expense	(48)	) (64)	) (2,887)	) (2,999)
Intercompany interest income/(expense)	1,350	773	(2,123)	) -
Other income/(expense)—net	45	14	(49)	) 10
Income/(loss) before income taxes	29,433	14,361	(12,927)	) 30,867
Income taxes	(11,152)	) (5,501)	) 4,641	) (12,012)
Net income/(loss)	\$18,281	\$8,860	\$(8,286)	) \$ 18,855

(a) The following amounts are included in net income (in thousands):

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	\$-	\$-	\$(2,346)	) \$(2,346)
Long-term incentive compensation	-	-	(1,799)	) (1,799)
Noncash impact of accounting for convertible debt	-	-	(1,688)	) (1,688)
Expenses of class action lawsuit	-	(105)	)	) (105)
Expenses incurred in connection with the Office of Inspector				
General investigation	(118)	)	-	) (118)
Total	\$(118)	) \$(105)	) \$(5,833)	) \$(6,056)

	VITAS	Roto-Rooter	Corporate	Consolidated
After-tax benefit/(cost):				
Stock option expense	\$-	\$-	\$(1,484)	) \$(1,484)
Long-term incentive compensation	-	-	(1,124)	) (1,124)
Noncash impact of accounting for convertible debt	-	-	(1,068)	) (1,068)
Expenses of class action lawsuit	-	(63)	)	) (63)
Expenses incurred in connection with the Office of Inspector				
General investigation	(74)	)	-	) (74)
Total	\$(74)	) \$(63)	) \$(3,676)	) \$(3,813)



CHEMED CORPORATION AND SUBSIDIARY COMPANIES  
CONSOLIDATING STATEMENT OF INCOME  
FOR THE THREE MONTHS ENDED JUNE 30, 2009  
(in thousands)(unaudited)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
2009 (a)				
Service revenues and sales	\$211,303	\$83,952	\$-	\$295,255
Cost of services provided and goods sold	162,175	45,162	-	207,337
Selling, general and administrative expenses	17,877	22,844	8,859	49,580
Depreciation	3,256	2,035	47	5,338
Amortization	1,187	117	314	1,618
Other operating expenses	-	-	3,444	3,444
Total costs and expenses	184,495	70,158	12,664	267,317
Income/(loss) from operations	26,808	13,794	(12,664)	27,938
Interest expense	(326)	(59)	(2,757)	(3,142)
Intercompany interest income/(expense)	1,023	581	(1,604)	-
Other income-net	123	6	3,229	3,358
Income/(loss) before income taxes	27,628	14,322	(13,796)	28,154
Income taxes	(10,506)	(5,524)	5,126	(10,904)
Net income/(loss)	\$17,122	\$8,798	\$(8,670)	\$17,250

(a) The following amounts are included in net income  
(in thousands):

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	\$-	\$-	\$(2,443)	\$(2,443)
Noncash impact of accounting for convertible debt	-	-	(1,561)	(1,561)
Expenses associated with contested proxy solicitation	-	-	(3,444)	(3,444)
Expenses incurred in connection with the Office of Inspector General investigation	(86)	-	-	(86)
Total	\$(86)	\$-	\$(7,448)	\$(7,534)

	VITAS	Roto-Rooter	Corporate	Consolidated
After-tax benefit/(cost):				
Stock option expense	\$-	\$-	\$(1,544)	\$(1,544)
Noncash impact of accounting for convertible debt	-	-	(987)	(987)
Income tax impact of nondeductible losses on investments held in deferred compensation trusts	-	-	20	20
Expenses associated with contested proxy solicitation	-	-	(2,180)	(2,180)
Expenses incurred in connection with the Office of Inspector General investigation	(53)	-	-	(53)
Total	\$(53)	\$-	\$(4,691)	\$(4,744)



CHEMED CORPORATION AND SUBSIDIARY COMPANIES  
CONSOLIDATING STATEMENT OF INCOME  
FOR THE SIX MONTHS ENDED JUNE 30, 2010  
(in thousands)(unaudited)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
2010 (a)				
Service revenues and sales	\$449,578	\$174,230	\$-	\$623,808
Cost of services provided and goods sold	347,350	95,489	-	442,839
Selling, general and administrative expenses	36,550	48,950	12,994	98,494
Depreciation	7,587	3,901	175	11,663
Amortization	1,559	255	697	2,511
Total costs and expenses	393,046	148,595	13,866	555,507
Income/(loss) from operations	56,532	25,635	(13,866)	68,301
Interest expense	(80)	(132)	(5,739)	(5,951)
Intercompany interest income/(expense)	2,639	1,475	(4,114)	-
Other income/(expense)—net	6	24	166	196
Income/(loss) before income taxes	59,097	27,002	(23,553)	62,546
Income taxes	(22,378)	(10,329)	8,374	(24,333)
Net income/(loss)	\$36,719	\$16,673	\$(15,179)	\$38,213

(a) The following amounts are included in net income (in thousands):

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	\$-	\$-	\$(4,397)	\$(4,397)
Long-term incentive compensation	-	-	(1,799)	(1,799)
Noncash impact of accounting for convertible debt	-	-	(3,343)	(3,343)
Expenses of class action lawsuit	-	(105)	-	(105)
Expenses incurred in connection with the Office of Inspector General investigation	(278)	-	-	(278)
Total	\$(278)	\$(105)	\$(9,539)	\$(9,922)

	VITAS	Roto-Rooter	Corporate	Consolidated
After-tax benefit/(cost):				
Stock option expense	\$-	\$-	\$(2,782)	\$(2,782)
Long-term incentive compensation	-	-	(1,124)	(1,124)
Noncash impact of accounting for convertible debt	-	-	(2,115)	(2,115)
Expenses of class action lawsuit	-	(63)	-	(63)
Expenses incurred in connection with the Office of Inspector General investigation	(173)	-	-	(173)
Total	\$(173)	\$(63)	\$(6,021)	\$(6,257)

CHEMED CORPORATION AND SUBSIDIARY COMPANIES  
CONSOLIDATING STATEMENT OF INCOME  
FOR THE SIX MONTHS ENDED JUNE 30, 2009  
(in thousands)(unaudited)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
2009 (a)				
Service revenues and sales	\$419,720	\$ 170,473	\$-	\$ 590,193
Cost of services provided and goods sold	321,807	92,543	-	414,350
Selling, general and administrative expenses	35,423	47,219	12,731	95,373
Depreciation	6,475	4,089	99	10,663
Amortization	2,358	206	590	3,154
Other operating expenses	-	-	3,989	3,989
Total costs and expenses	366,063	144,057	17,409	527,529
Income/(loss) from operations	53,657	26,416	(17,409)	62,664
Interest expense	(365)	(94)	(5,527)	(5,986)
Intercompany interest income/(expense)	1,913	1,117	(3,030)	-
Other income-net	120	122	2,840	3,082
Income/(loss) before income taxes	55,325	27,561	(23,126)	59,760
Income taxes	(21,033)	(10,534)	8,396	(23,171)
Net income/(loss)	\$34,292	\$17,027	\$(14,730)	\$36,589

(a) The following amounts are included in net income (in thousands):

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	\$-	\$-	\$(4,485)	\$(4,485)
Noncash impact of accounting for convertible debt	-	-	(3,091)	(3,091)
Non-taxable income on certain investments held in deferred compensation trusts	-	-	1,211	1,211
Expenses associated with contested proxy solicitation	-	-	(3,989)	(3,989)
Expenses incurred in connection with the Office of Inspector General investigation	(99)	-	-	(99)
Total	\$(99)	\$-	\$(10,354)	\$(10,453)

	VITAS	Roto-Rooter	Corporate	Consolidated
After-tax benefit/(cost):				
Stock option expense	\$-	\$-	\$(2,836)	\$(2,836)
Noncash impact of accounting for convertible debt	-	-	(1,955)	(1,955)
Non-taxable income on certain investments held in deferred compensation trusts	-	-	1,211	1,211
Income tax impact of nondeductible losses on investments held in deferred compensation trusts	-	-	(455)	(455)
Expenses associated with contested proxy solicitation	-	-	(2,525)	(2,525)
Expenses incurred in connection with the Office of Inspector General investigation	(61)	-	-	(61)
Total	\$(61)	\$-	\$(6,560)	\$(6,621)



## Consolidating Summary and Reconciliation of Adjusted EBITDA

## Chemed Corporation and Subsidiary Companies

(in thousands)

For the three months ended June 30, 2010	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	\$ 18,281	\$ 8,860	\$(8,286)	) \$ 18,855
Add/(deduct):				
Interest expense	48	64	2,887	2,999
Income taxes	11,152	5,501	(4,641)	) 12,012
Depreciation	4,103	1,950	141	6,194
Amortization	788	132	367	1,287
EBITDA	34,372	16,507	(9,532)	) 41,347
Add/(deduct):				
Legal expenses of OIG investigation	118	-	-	118
Stock option expense	-	-	2,346	2,346
Advertising cost adjustment	-	(678)	-	(678)
Expenses of class action litigation	-	105	-	105
Long-term incentive compensation	-	-	1,799	1,799
Interest income	(90)	) (25)	) (35)	) (150)
Intercompany interest income/(expense)	(1,350)	) (773)	) 2,123	-
Adjusted EBITDA	\$ 33,050	\$ 15,136	\$(3,299)	) \$ 44,887

For the three months ended June 30, 2009	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	\$ 17,122	\$ 8,798	\$(8,670)	) \$ 17,250
Add/(deduct):				
Interest expense	326	59	2,757	3,142
Income taxes	10,506	5,524	(5,126)	) 10,904
Depreciation	3,256	2,035	47	5,338
Amortization	1,187	117	314	1,618
EBITDA	32,397	16,533	(10,678)	) 38,252
Add/(deduct):				
Expenses associated with contested proxy solicitation	-	-	3,444	3,444
Legal expenses of OIG investigation	86	-	-	86
Stock option expense	-	-	2,443	2,443
Advertising cost adjustment	-	(368)	-	(368)
Interest income	(149)	) (18)	) (40)	) (207)
Intercompany interest income/(expense)	(1,023)	) (581)	) 1,604	-
Adjusted EBITDA	\$ 31,311	\$ 15,566	\$(3,227)	) \$ 43,650

## Consolidating Summary and Reconciliation of Adjusted EBITDA

## Chemed Corporation and Subsidiary Companies

(in thousands)

For the six months ended June 30, 2010	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	\$36,719	\$16,673	\$(15,179)	) \$38,213
Add/(deduct):				
Interest expense	80	132	5,739	5,951
Income taxes	22,378	10,329	(8,374)	) 24,333
Depreciation	7,587	3,901	175	11,663
Amortization	1,559	255	697	2,511
EBITDA	68,323	31,290	(16,942)	) 82,671
Add/(deduct):				
Legal expenses of OIG investigation	278	-	-	278
Stock option expense	-	-	4,397	4,397
Advertising cost adjustment	-	(1,068)	)	-
Expenses of class action litigation	-	105	-	105
Long-term incentive compensation	-	-	1,799	1,799
Interest income	(135)	) (27)	) (63)	) (225)
Intercompany interest income/(expense)	(2,639)	) (1,475)	) 4,114	-
Adjusted EBITDA	\$65,827	\$28,825	\$(6,695)	) \$87,957
For the six months ended June 30, 2009	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	\$34,292	\$17,027	\$(14,730)	) \$36,589
Add/(deduct):				
Interest expense	365	94	5,527	5,986
Income taxes	21,033	10,534	(8,396)	) 23,171
Depreciation	6,475	4,089	99	10,663
Amortization	2,358	206	590	3,154
EBITDA	64,523	31,950	(16,910)	) 79,563
Add/(deduct):				
Non-taxable income from certain investments held in deferred compensation trusts	-	-	(1,211)	) (1,211)
Expenses associated with contested proxy solicitation	-	-	3,989	3,989
Legal expenses of OIG investigation	99	-	-	99
Stock option expense	-	-	4,485	4,485
Advertising cost adjustment	-	(762)	)	-
Interest income	(197)	) (36)	) (56)	) (289)
Intercompany interest income/(expense)	(1,913)	) (1,117)	) 3,030	-
Adjusted EBITDA	\$62,512	\$30,035	\$(6,673)	) \$85,874

CHEMED CORPORATION AND SUBSIDIARY COMPANIES  
OPERATING STATISTICS FOR VITAS SEGMENT  
(unaudited)

OPERATING STATISTICS	Three Months Ended June 30,		Six Months Ended June 30,					
	2010	2009	2010	2009				
Net revenue (\$000)								
Homecare	\$ 163,512	\$ 152,006	\$ 320,738	\$ 299,060				
Inpatient	25,989	23,667	52,281	48,759				
Continuous care	37,102	35,125	74,776	69,716				
Total before Medicare cap allowance and 2008 BNAF	\$ 226,603	\$ 210,798	\$ 447,795	\$ 417,535				
Estimated BNAF	-	-	-	1,950				
Medicare cap allowance	35	505	1,783	235				
Total	\$ 226,638	\$ 211,303	\$ 449,578	\$ 419,720				
Net revenue as a percent of total before Medicare cap allowance								
Homecare	72.1	%	72.1	%	71.6	%	71.6	%
Inpatient	11.5		11.2		11.7		11.7	
Continuous care	16.4		16.7		16.7		16.7	
Total before Medicare cap allowance and 2008 BNAF	100.0		100.0		100.0		100.0	
Estimated BNAF	-		-		-		0.5	
Medicare cap allowance	-		0.2		0.4		-	
Total	100.0	%	100.2	%	100.4	%	100.5	%
Average daily census (days)								
Homecare	8,345		7,668		8,229		7,573	
Nursing home	3,223		3,292		3,193		3,277	
Routine homecare	11,568		10,960		11,422		10,850	
Inpatient	433		394		438		407	
Continuous care	583		566		594		567	
Total	12,584		11,920		12,454		11,824	
Total Admissions	14,423		13,840		29,267		28,008	
Total Discharges	14,132		13,740		28,685		27,605	
Average length of stay (days)	77.4		73.4		76.6		75.0	
Median length of stay (days)	14.0		14.0		14.0		14.0	
ADC by major diagnosis								
Neurological	32.8	%	32.8	%	32.8	%	32.7	%
Cancer	18.1		19.2		18.5		19.3	
Cardio	12.0		12.1		11.9		12.2	
Respiratory	6.5		6.6		6.6		6.6	
Other	30.6		29.3		30.2		29.2	
Total	100.0	%	100.0	%	100.0	%	100.0	%
Admissions by major diagnosis								
Neurological	18.5	%	17.3	%	18.6	%	17.9	%
Cancer	33.8		35.4		33.8		34.9	
Cardio	11.2		11.9		11.4		12.1	
Respiratory	8.5		7.7		8.5		7.8	
Other	28.0		27.7		27.7		27.3	



Edgar Filing: CHEMED CORP - Form 10-Q

Total	100.0	%	100.0	%	100.0	%	100.0	%
Direct patient care margins								
Routine homecare	52.5	%	52.1	%	51.9	%	51.9	%
Inpatient	12.3		16.6		13.7		17.1	
Continuous care	21.2		20.2		21.0		20.2	
Homecare margin drivers (dollars per patient day)								
Labor costs	\$ 52.52		\$ 51.83		\$ 53.21		\$ 52.32	
Drug costs	7.67		7.71		7.72		7.68	
Home medical equipment	6.66		6.82		6.80		6.75	
Medical supplies	2.46		2.36		2.45		2.32	
Inpatient margin drivers (dollars per patient day)								
Labor costs	\$ 301.81		\$ 282.46		\$ 294.27		\$ 276.96	
Continuous care margin drivers (dollars per patient day)								
Labor costs	\$ 530.05		\$ 522.27		\$ 528.23		\$ 521.79	
Bad debt expense as a percent of revenues	0.9	%	1.1	%	0.9	%	1.1	%
Accounts receivable --								
Days of revenue outstanding-excluding unapplied Medicare payments	42.3		55.9		n.a.		n.a.	
Days of revenue outstanding-including unapplied Medicare payments	34.1		36.7		n.a.		n.a.	

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995 Regarding Forward-Looking Information

Certain statements contained in this report are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. The words “believe”, “expect”, “hope”, “anticipate”, “plan” and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. These forward-looking statements are based on current expectations and assumptions and involve various known and unknown risks, uncertainties, contingencies and other factors, which could cause Chemed’s actual results to differ from those expressed in such forward-looking statements. Variances in any or all of the risks, uncertainties, contingencies, and other factors from our assumptions could cause actual results to differ materially from these forward-looking statements and trends. In addition, our ability to deal with the unknown outcomes of these events, many of which are beyond our control, may affect the reliability of projections and other financial matters. Investors are cautioned that such forward-looking statements are subject to inherent risk and there are no assurances that the matters contained in such statements will be achieved. Chemed does not undertake and specifically disclaims any obligation to publicly update or revise any forward-looking statements, whether as a result of a new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our primary market risk exposure relates to interest rate risk exposure through variable interest rate borrowings. At June 30, 2010, we had no variable rate debt outstanding. At June 30, 2010, the fair value of the Notes approximates \$172.7 million which have a face value of \$187.0 million.

Item 4. Controls and Procedures

We carried out an evaluation, under the supervision of our President and Chief Executive Officer and with the participation of the Executive Vice President and Chief Financial Officer and the Vice President and Controller, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the President and Chief Executive Officer, Executive Vice President and Chief Financial Officer and Vice President and Controller have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report. There has been no change in our internal control over financial reporting that occurred during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding the Company’s legal proceedings, see note 11, Legal and Regulatory Matters, under Part I, Item I of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in the Company’s most recent Annual Report on Form 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Item 2(c). Purchases of Equity Securities by Issuer and Affiliated Purchasers

The following table shows the activity related to our share repurchase programs for the first six months of 2010:

	Total Number of Shares Repurchased	Weighted Average Price Paid Per Share	Cumulative Shares Repurchased Under the Program	Dollar Amount Remaining Under The Program
April 2007 Program				
January 1 through January 31, 2010	31,375	\$47.17	1,736,972	\$51,718,696
February 1 through February 29, 2010	-	\$-	1,736,972	\$51,718,696
March 1 through March 31, 2010	-	\$-	1,736,972	\$51,718,696
First Quarter Total - April 2007 Program	31,375	\$47.17		
April 1 through April 30, 2010	-	\$-	1,736,972	\$51,718,696
May 1 through May 31, 2010	38,492	\$53.70	1,775,464	\$49,651,677
June 1 through June 30, 2010	76,408	\$55.65	1,851,872	\$45,399,865
Second Quarter Total - April 2007 Program	114,900	\$54.99		

On April 26, 2007, our Board of Directors authorized a \$150 million share repurchase plan with no expiration date.

On May 20, 2008 our Board of Directors authorized an additional \$56 million under the April 2007 Program.

## Item 3. Defaults Upon Senior Securities

None

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

Removed and reserved

## Item 5. Other Information

None

## Item 6. Exhibits

Exhibit No.	Description
-------------	-------------

31.1	
------	--

Edgar Filing: CHEMED CORP - Form 10-Q

Certification by Kevin J. McNamara pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934.

31.2 Certification by David P. Williams pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934.

31.3 Certification by Arthur V. Tucker, Jr. pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934.

32.1 Certification by Kevin J. McNamara pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification by David P. Williams pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.3 Certification by Arthur V. Tucker, Jr. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

101.DEF XBRL Taxonomy Extension Definition Document

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Chemed Corporation  
(Registrant)

Dated: July 30, 2010 By: Kevin J. McNamara  
Kevin J. McNamara  
(President and Chief Executive Officer)

Dated: July 30, 2010 By: David P. Williams  
David P. Williams  
(Executive Vice President and Chief  
Financial Officer)

Dated: July 30, 2010 By: Arthur V. Tucker, Jr.  
Arthur V. Tucker, Jr.  
(Vice President and Controller)