

CHEMED CORP  
Form 10-Q  
August 02, 2012

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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, 2012

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.)

255 E. Fifth Street, Suite 2600, Cincinnati, Ohio 45202  
(Address of principal executive offices) (Zip code)

(513) 762-6500  
(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).

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Yes                      No    X

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 | 19,099,057 Shares | June 30, 2012 |

CHEMED CORPORATION AND  
SUBSIDIARY COMPANIES

Index

|   | Page No. |
|---|----------|
| <u>PART I. FINANCIAL INFORMATION:</u>   |          |
| <u>Item 1. Financial Statements</u>   |          |
| <u>Unaudited Consolidated Balance Sheet -<br/>June 30, 2012 and December 31, 2011</u>                         | 3        |
| <u>Unaudited Consolidated Statement of Income -<br/>Three and six months ended June 30, 2012 and<br/>2011</u> | 4        |
| <u>Unaudited Consolidated Statement of Cash Flows -<br/>Six months ended June 30, 2012 and 2011</u>           | 5        |
| <u>Notes to Unaudited Consolidated Financial Statements</u>   | 6        |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of<br/>Operations</u>      | 17       |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>                                     | 31       |
| <u>Item 4. Controls and Procedures</u>  | 31       |
| <u>PART II. OTHER INFORMATION</u>   |          |
| <u>Item 1. Legal Proceedings</u>  | 31       |
| <u>Item 1A. Risk Factors</u>  | 31       |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>                                    | 32       |
| <u>Item 3. Defaults Upon Senior Securities</u>  | 32       |
| <u>Item 4. Mine Safety Disclosures</u>  | 32       |
| <u>Item 5. Other Information</u>  | 32       |
| <u>Item 6. Exhibits</u>   | 32       |
| EX - 31.1   |          |
| EX - 31.2   |          |
| EX - 31.3   |          |
| EX - 32.1   |          |

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EX - 32.2

EX - 32.3

EX - 101.INS

EX - 101.SCH

EX - 101.CAL

EX - 101.DEF

EX - 101.LAB

EX - 101.PRE

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,<br>2012 | December<br>31,<br>2011 |
|---|------------------|-------------------------|
| <b>ASSETS</b>   |                  |                         |
| Current assets  |                  |                         |
| Cash and cash equivalents   | \$59,966         | \$38,081                |
| Accounts receivable less allowances of \$11,414 (2011 - \$11,524)   | 81,811           | 77,924                  |
| Inventories - net   | 8,146            | 8,668                   |
| Current deferred income taxes   | 13,226           | 12,540                  |
| Prepaid income taxes  | 4,187            | 2,131                   |
| Prepaid expenses  | 10,737           | 11,409                  |
| Total current assets  | 178,073          | 150,753                 |
| Investments of deferred compensation plans  | 33,215           | 31,629                  |
| Properties and equipment, at cost, less accumulated depreciation of \$155,406 (2011 - \$146,709)          | 88,571           | 82,951                  |
| Identifiable intangible assets less accumulated amortization of \$29,654 (2011 - \$28,904)                | 57,635           | 58,262                  |
| Goodwill  | 461,965          | 460,633                 |
| Other assets  | 11,669           | 11,677                  |
| Total Assets  | \$831,128        | \$795,905               |
| <b>LIABILITIES</b>  |                  |                         |
| Current liabilities   |                  |                         |
| Accounts payable  | \$51,002         | \$48,225                |
| Income taxes  | 167              | 90                      |
| Accrued insurance   | 36,786           | 37,147                  |
| Accrued compensation  | 39,729           | 41,087                  |
| Other current liabilities   | 14,906           | 18,851                  |
| Total current liabilities   | 142,590          | 145,400                 |
| Deferred income taxes   | 25,257           | 29,463                  |
| Long-term debt  | 170,769          | 166,784                 |
| Deferred compensation liabilities   | 33,149           | 30,693                  |
| Other liabilities   | 11,918           | 9,881                   |
| Total Liabilities   | 383,683          | 382,221                 |
| <b>STOCKHOLDERS' EQUITY</b>   |                  |                         |
| Capital stock - authorized 80,000,000 shares \$1 par; issued 31,142,442 shares (2011 - 30,936,925 shares) | 31,142           | 30,937                  |
| Paid-in capital   | 410,957          | 398,094                 |
| Retained earnings   | 582,316          | 546,757                 |
| Treasury stock - 12,141,664 shares (2011 - 11,880,051)  | (579,013 )       | (564,091 )              |
| Deferred compensation payable in Company stock  | 2,043            | 1,987                   |

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|  |           |           |
|--|-----------|-----------|
| Total Stockholders' Equity                 | 447,445   | 413,684   |
| Total Liabilities and Stockholders' Equity | \$831,128 | \$795,905 |

See accompanying notes to unaudited consolidated financial statements.

-3-

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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,                     |           | 30,                   |           |
|   | 2012                    | 2011      | 2012                  | 2011      |
| Service revenues and sales  | \$354,170               | \$333,360 | \$707,113             | \$664,278 |
| Cost of services provided and goods sold (excluding depreciation) | 257,368                 | 239,597   | 514,813               | 477,055   |
| Selling, general and administrative expenses                      | 49,770                  | 50,424    | 102,937               | 106,078   |
| Depreciation  | 6,380                   | 6,358     | 12,621                | 12,646    |
| Amortization  | 1,127                   | 1,139     | 2,240                 | 2,109     |
| Total costs and expenses  | 314,645                 | 297,518   | 632,611               | 597,888   |
| Income from operations  | 39,525                  | 35,842    | 74,502                | 66,390    |
| Interest expense  | (3,672 )                | (3,461 )  | (7,289 )              | (6,705 )  |
| Other income/(expense) - net                                      | (970 )                  | 714       | 1,125                 | 2,816     |
| Income before income taxes  | 34,883                  | 33,095    | 68,338                | 62,501    |
| Income taxes  | (13,609 )               | (12,809 ) | (26,619 )             | (24,114 ) |
| Net income  | \$21,274                | \$20,286  | \$41,719              | \$38,387  |
|   |                         |           |                       |           |
| Earnings Per Share  |                         |           |                       |           |
| Net income  | \$1.12                  | \$0.96    | \$2.20                | \$1.82    |
| Average number of shares outstanding                              | 18,998                  | 21,115    | 18,976                | 21,067    |
|   |                         |           |                       |           |
| Diluted Earnings Per Share  |                         |           |                       |           |
| Net income  | \$1.10                  | \$0.94    | \$2.16                | \$1.78    |
| Average number of shares outstanding                              | 19,369                  | 21,637    | 19,357                | 21,586    |
|   |                         |           |                       |           |
| Cash Dividends Per Share  | \$0.16                  | \$0.14    | \$0.32                | \$0.28    |

See accompanying notes to unaudited consolidated financial statements.

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

|  | Six Months Ended<br>June 30, |           |
|--|------------------------------|-----------|
|  | 2012                         | 2011      |
| Cash Flows from Operating Activities   |                              |           |
| Net income   | \$41,719                     | \$38,387  |
| Adjustments to reconcile net income to net cash provided<br>by operating activities:                 |                              |           |
| Depreciation and amortization  | 14,861                       | 14,755    |
| Deferred income taxes  | (4,895 )                     | (18 )     |
| Provision for uncollectible accounts receivable  | 4,730                        | 4,365     |
| Amortization of discount on convertible notes  | 3,985                        | 3,724     |
| Stock option expense   | 4,312                        | 4,495     |
| Noncash long-term incentive compensation   | -                            | 2,595     |
| Changes in operating assets and liabilities, excluding<br>amounts acquired in business combinations: |                              |           |
| Increase in accounts receivable  | (8,543 )                     | (9,271 )  |
| Decrease/(increase) in inventories   | 522                          | (954 )    |
| Decrease/(increase) in prepaid expenses  | 672                          | (59 )     |
| Decrease in accounts payable and other current liabilities   | (3,593 )                     | (6,603 )  |
| Increase/(decrease) in income taxes  | (1,029 )                     | 3,738     |
| Increase in other assets   | (2,283 )                     | (5,652 )  |
| Increase in other liabilities  | 4,493                        | 4,514     |
| Excess tax benefit on share-based compensation   | (1,069 )                     | (3,339 )  |
| Other sources  | 773                          | 450       |
| Net cash provided by operating activities  | 54,655                       | 51,127    |
| Cash Flows from Investing Activities   |                              |           |
| Capital expenditures   | (18,474 )                    | (14,960 ) |
| Business combinations, net of cash acquired  | (1,500 )                     | (3,689 )  |
| Other sources/(uses)   | 357                          | (869 )    |
| Net cash used by investing activities  | (19,617 )                    | (19,518 ) |
| Cash Flows from Financing Activities   |                              |           |
| Dividends paid   | (6,160 )                     | (5,967 )  |
| Purchases of treasury stock  | (12,841 )                    | (25,482 ) |
| Proceeds from issuance of capital stock  | 3,670                        | 7,698     |
| Excess tax benefit on share-based compensation   | 1,069                        | 3,339     |
| Increase/(decrease) in cash overdrafts payable   | 985                          | (7,814 )  |
| Debt issuance costs  | -                            | (2,723 )  |
| Other sources  | 124                          | 364       |
| Net cash used by financing activities  | (13,153 )                    | (30,585 ) |
| Increase in Cash and Cash Equivalents  | 21,885                       | 1,024     |
| Cash and cash equivalents at beginning of year   | 38,081                       | 49,917    |
| Cash and cash equivalents at end of period   | \$59,966                     | \$50,941  |

See accompanying notes to unaudited consolidated financial statements.





CHEMED CORPORATION AND SUBSIDIARY COMPANIES

Notes to Unaudited Consolidated 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, 2011 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, 2011.

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, 2012, VITAS has approximately \$510,000 in unbilled revenue included in accounts receivable (December 31, 2011 - \$720,000). 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 revenue and 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 period ended June 30, 2012, we did not record any Medicare cap liability. During the six-month period ended June 30, 2012, we reversed Medicare cap liability for amounts recorded in the fourth quarter of 2011 for three programs' projected 2012 measurement period liability. We reversed these amounts as improving admissions trends in these programs indicate that the liability had been eliminated.

Shown below is the Medicare cap liability activity for the periods ended (in thousands):

|      |          |
|------|----------|
|      | June 30, |
| 2012 | 2011     |

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|                                    |          |         |
|------------------------------------|----------|---------|
| Beginning balance January 1,       | \$2,965  | \$1,371 |
| Reversal - 2012 measurement period | (2,577 ) | -       |
| Expense - 2011 measurement period  | -        | 299     |
| Reversal - 2011 measurement period | -        | (743 )  |
| Other                              | -        | (198 )  |
| Ending balance June 30,            | \$388    | \$729   |

-6-

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Vitas provides charity care, in certain circumstances, to patients without charge when management of the hospice program determines, at the time services are performed, that the patient does not have the financial wherewithal to make payment. There is no revenue or associated accounts receivable in the accompanying consolidated financial statements related to charity care. The cost of charity care is calculated by taking the ratio of charity care days to total days of care and multiplying by total cost of care. The cost of charity care is as follows (in thousands):

| Three months ended<br>June 30, |          | Six months ended<br>June 30, |          |
|--------------------------------|----------|------------------------------|----------|
| 2012                           | 2011     | 2012                         | 2011     |
| \$ 1,789                       | \$ 1,763 | \$ 4,038                     | \$ 3,522 |

### 3. Segments

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

|                            | Three months ended<br>June 30, |           | Six months ended<br>June 30, |           |
|----------------------------|--------------------------------|-----------|------------------------------|-----------|
|                            | 2012                           | 2011      | 2012                         | 2011      |
| Service Revenues and Sales |                                |           |                              |           |
| VITAS                      | \$265,213                      | \$243,095 | \$526,060                    | \$478,768 |
| Roto-Rooter                | 88,957                         | 90,265    | 181,053                      | 185,510   |
| Total                      | \$354,170                      | \$333,360 | \$707,113                    | \$664,278 |
| After-tax Earnings         |                                |           |                              |           |
| VITAS                      | \$20,433                       | \$18,589  | \$40,060                     | \$36,714  |
| Roto-Rooter                | 8,074                          | 9,092     | 15,569                       | 17,602    |
| Total                      | 28,507                         | 27,681    | 55,629                       | 54,316    |
| Corporate                  | (7,233 )                       | (7,395 )  | (13,910 )                    | (15,929 ) |
| Net income                 | \$21,274                       | \$20,286  | \$41,719                     | \$38,387  |

We report corporate administrative expenses and unallocated investing and financing income and expense not directly related to either segment as "Corporate".

### 4. Earnings per Share

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

| For the Three Months Ended June 30, | Income    | Net Income |                    |
|-------------------------------------|-----------|------------|--------------------|
|                                     |           | Shares     | Earnings per Share |
| 2012                                |           |            |                    |
| Earnings                            | \$ 21,274 | 18,998     | \$ 1.12            |
| Dilutive stock options              | -         | 288        |                    |
| Nonvested stock awards              | -         | 83         |                    |
| Diluted earnings                    | \$ 21,274 | 19,369     | \$ 1.10            |
| 2011                                |           |            |                    |
| Earnings                            | \$ 20,286 | 21,115     | \$ 0.96            |
| Dilutive stock options              | -         | 433        |                    |
| Nonvested stock awards              | -         | 89         |                    |

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|                  |    |        |        |    |      |
|------------------|----|--------|--------|----|------|
| Diluted earnings | \$ | 20,286 | 21,637 | \$ | 0.94 |
|------------------|----|--------|--------|----|------|

-7-

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| For the Six Months Ended June 30,<br>2012 | Income    | Net Income |                    |
|---|-----------|------------|--------------------|
|   |           | Shares     | Earnings per Share |
| Earnings                                  | \$ 41,719 | 18,976     | \$ 2.20            |
| Dilutive stock options                    | -         | 294        |                    |
| Nonvested stock awards                    | -         | 87         |                    |
| Diluted earnings                          | \$ 41,719 | 19,357     | \$ 2.16            |
| 2011                                      |           |            |                    |
| Earnings                                  | \$ 38,387 | 21,067     | \$ 1.82            |
| Dilutive stock options                    | -         | 433        |                    |
| Nonvested stock awards                    | -         | 86         |                    |
| Diluted earnings                          | \$ 38,387 | 21,586     | \$ 1.78            |

For the three and six-month periods ended June 30, 2012, 1.4 million stock options 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 period ended June 30, 2011, 970,000 stock options were excluded from the computation of diluted earnings per share.

Diluted earnings per share may be impacted in the future 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 at June 30, 2012. 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% |                | Total Treasury Method  | Shares Due to the Company | Incremental Shares Issued/Received by the Company upon Conversion (b) |
|-------------|--------------------------|----------------|------------------------|---------------------------|---|
|             | Convertible Notes        | Warrant Shares | Incremental Shares (a) | under Notes Hedges        |   |
| \$ 80.73    | 40,072                   | -              | 40,072                 | (42,868)                  | (2,796)   |
| \$ 90.73    | 295,315                  | -              | 295,315                | (315,919)                 | (20,604)  |
| \$ 100.73   | 499,879                  | -              | 499,879                | (534,756)                 | (34,877)  |
| \$ 110.73   | 667,495                  | 120,403        | 787,898                | (714,066)                 | 73,832  |
| \$ 120.73   | 807,344                  | 319,182        | 1,126,526              | (863,672)                 | 262,854   |
| \$ 130.73   | 925,798                  | 487,550        | 1,413,348              | (990,391)                 | 422,957   |

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- 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-

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## 5. Long-Term Debt

On March 1, 2011, we replaced our existing credit agreement with our Revolving Credit Facility (“2011 Credit Agreement”). Terms of the 2011 Credit Agreement consist of a five-year, \$350 million revolving credit facility. This 2011 Credit Agreement has a floating interest rate that is currently LIBOR plus 175 basis points. The 2011 Credit Agreement also includes a \$150 million expansion feature. The 2011 Credit Agreement contains the following quarterly financial covenants:

| Description  | Requirement      |
|--|------------------|
| Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA)                  | < 3.50 to 1.00   |
| Fixed Charge Coverage Ratio (Consolidated Free Cash Flow/Consolidated Fixed Charges) | > 1.50 to 1.00   |
| Annual Operating Lease Commitment  | < \$30.0 million |

We are in compliance with all debt covenants as of June 30, 2012. We have issued \$29.4 million in standby letters of credit as of June 30, 2012 for insurance purposes. Issued letters of credit reduce our available credit under the 2011 Credit Agreement. As of June 30, 2012, we have approximately \$320.6 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the \$150 million expansion feature.

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

|  | June 30, 2012 | December 31, 2011 |
|--|---------------|-------------------|
| Principal amount of convertible debentures | \$ 186,956    | \$ 186,956        |
| Unamortized debt discount                  | (16,187 )     | (20,172 )         |
| Carrying amount of convertible debentures  | \$ 170,769    | \$ 166,784        |
| 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, |          |
|--|-----------------------------|----------|---------------------------|----------|
|  | 2012                        | 2011     | 2012                      | 2011     |
| Cash interest expense                  | \$ 1,350                    | \$ 1,288 | \$ 2,683                  | \$ 2,440 |
| Non-cash amortization of debt discount | 2,009                       | 1,878    | 3,985                     | 3,724    |
| Amortization of debt costs             | 313                         | 295      | 621                       | 541      |
| Total interest expense                 | \$ 3,672                    | \$ 3,461 | \$ 7,289                  | \$ 6,705 |

The unamortized debt discount is being amortized using the effective interest method over the remaining life of the Notes. The effective rate on the Notes is approximately 6.875%.



## 6. Other Income/(Expense) -- Net

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

|   | Three months ended June<br>30, |          | Six months ended June<br>30, |          |
|---|--------------------------------|----------|------------------------------|----------|
|   | 2012                           | 2011     | 2012                         | 2011     |
| Market value gains/(losses) on assets held in deferred compensation trust | \$ (948                        | ) \$ 743 | \$ 1,185                     | \$ 2,807 |
| Gain/(loss) on disposal of property and equipment                         | (67                            | ) 32     | (148                         | ) 11     |
| Interest income   | 59                             | 62       | 110                          | 123      |
| Other - net   | (14                            | ) (123   | ) (22                        | ) (125   |
| Other income/(expense) - net  | \$ (970                        | ) \$ 714 | \$ 1,125                     | \$ 2,816 |

## 7. Stock-Based Compensation Plans

On February 17, 2012, the Compensation/Incentive Committee of the Board of Directors ("CIC") approved a grant of 35,969 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 \$2.3 million and will be recognized ratably over the 4 year vesting period. We assumed no forfeitures in determining the cumulative compensation expense of the grant.

On February 17, 2012, the CIC approved a grant of 442,350 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 \$7.1 million and will be recognized over the 3 year vesting period. We used the Black-Scholes option valuation method to determine the cumulative compensation expense of the grant.

## 8. Independent Contractor Operations

The Roto-Rooter segment sublicenses with 65 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, 2012 totaling \$1.1 million (December 31, 2011 - \$1.1 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 0% to 8% per annum and the remaining terms of the loans range from 2 months to 5 years at June 30, 2012. We recorded the following from our independent contractors (in thousands):

|                | Three months ended June 30, |          | Six months ended June 30, |           |
|----------------|-----------------------------|----------|---------------------------|-----------|
|                | 2012                        | 2011     | 2012                      | 2011      |
| Revenues       | \$ 6,809                    | \$ 6,528 | \$ 13,491                 | \$ 13,039 |
| Pretax profits | 3,732                       | 3,402    | 6,813                     | 6,389     |

## 9. Pension and Retirement Plans

All of the Company's plans that provide retirement and similar benefits are defined contribution plans. These expenses include the impact of market gains and losses on assets held in deferred compensation plans. Expenses for the Company's pension and profit-sharing plans, excess benefit plans and other similar plans are as follows (in thousands):

|    | Three months ended June 30, |          | Six months ended June 30, |          |
|----|-----------------------------|----------|---------------------------|----------|
|    | 2012                        | 2011     | 2012                      | 2011     |
| \$ | 1,162                       | \$ 2,871 | \$ 5,854                  | \$ 6,954 |



## 10. 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 September 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. We are unable to estimate our potential liability, if any, with respect to this case.

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. We contest these allegations. In December 2009, the trial court denied Plaintiffs' motion for class certification. In July 2011, the Court of Appeals affirmed denial of class certification on the travel time, meal and rest period claims, and reversed the trial court's denial on the off-the-clock and sales representation exemption claims. Plaintiffs have filed an appeal of this decision. We are unable to estimate our potential liability or potential range of loss, if any, with respect to this case.

On January 12, 2012, the Greater Pennsylvania Carpenters Pension Fund filed a putative class action lawsuit in the United States District Court for the Southern District of Ohio against the Company, Kevin McNamara, David Williams, and Timothy O'Toole. On April 9, 2012, the Court issued orders (a) renaming the suit as In re Chemed Corp. Securities Litigation, Civil Action No. 1:12-cv-28 (S.D. Ohio), (b) appointing the Greater Pennsylvania Carpenters Pension Fund and the Electrical Workers Pension Fund, Local 103, I.B.E.W. as Lead Plaintiffs; and (c) approving Lead Plaintiffs' selection of Labaton Sucharow LLP and Robbins Geller Rudman & Dowd LLP as Co-Lead Counsel. On June 18, 2012, Lead Plaintiffs filed an amended complaint alleging violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 against all Defendants, and violation of Section 20(a) of the Securities Exchange Act of 1934 against Messrs. McNamara, Williams and O'Toole. The suit's allegations concern the VITAS hospice segment of the Company's business. Lead Plaintiffs seek, on behalf of a putative class of purchasers of Chemed Capital Stock between February 15, 2010 and November 16, 2011, compensatory damages in an unspecified amount and attorneys' fees and expenses, arising from Defendants' failure to disclose an alleged fraudulent scheme to enroll ineligible hospice patients and to fraudulently obtain payments from the federal government. Defendants are required to move or otherwise respond to the amended complaint on or before August 17, 2012. Defendants believe the claims are without merit, and intend to defend vigorously against them.

Regardless of outcome, defense of litigation adversely affects us through defense costs, diversion of our time and related publicity.

### Regulatory Matters

In June 2012, VITAS received an administrative subpoena from the Office of the Inspector General ("OIG") of the U.S. Department of Health and Human Services in connection with an investigation of possible improper claims submitted to the Medicare and Medicaid Programs. It seeks production to the OIG of various categories of documents concerning the provision of hospice services, for headquarters and its Southern California programs, for the period January 1, 2007 through the date of the subpoena. The categories of documents include policy, procedure and training manuals; documents concerning patient eligibility for hospice care, including referrals, admissions, certification, revocations and census information; documents concerning claims submitted to government programs; certain information concerning employees and their compensation; and documents concerning VITAS' financial performance. We are conferring with the U.S. Attorney's Office for the Central District of California regarding the document requests. We cannot predict the timing or outcome of this investigation, or estimate our potential liability, if any.

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 (“CID”) from the State of Texas Attorney General’s Office, seeking related documents. In September 2010, it received a second CID and a second administrative subpoena seeking related documents. In April 2011, the U.S. Attorney provided the Company with a copy of qui tam complaint filed under seal in the U.S. District Court for the Northern District of Texas. The Court unsealed this complaint in November 2011. The U.S. Attorney and the Attorney General for the State of Texas filed a notice in November 2011 that they had decided not to intervene at that time in the case. They continue to investigate its allegations. It was brought by Michael Rehfelt, a former VITAS San Antonio program general manager, against VITAS, the program’s former Regional Vice President Keith Becker, its former Medical Director Justos Cisneros, and their current employers: Wellmed Medical Management, Care Level Management LLC, and Inspiris Inc. Plaintiff dismissed his case against their current employers in March of 2012. The case alleges admission and recertification of inappropriate patients, backdating revocations, and conspiring to admit inappropriate patients to hospice. In June 2011, the U.S. Attorney provided the Company with a partially unsealed second qui tam complaint filed under seal in the U.S. District Court for the Western District of Texas. In June 2011, the U.S. Attorney also provided the Company with a partially unsealed third qui tam complaint filed under seal in the Northern District of Illinois, Eastern Division. We are conferring with the U.S. Attorney regarding the Company’s defenses to each complaint’s allegations. We can neither predict the outcome of this investigation nor estimate our potential liability, if any.

In April 2005, the OIG 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 investigations. In July 2012, we received an administrative subpoena from the Office of the Attorney General of Florida seeking documents from January 1, 2007 covering areas including billing, marketing, referrals, incentives, patient eligibility for hospice care, claims submitted to government programs, and VITAS' financial performance. We are conferring with the government's counsel regarding the document requests. We are unable to estimate the timing or outcome of this investigation or our potential liability, if any, with respect to this matter.

Regardless of outcome, responding to the subpoenas can adversely affect us through defense costs, diversion of our time and related publicity.

#### 11. Concentration of Risk

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 \$10.2 million and \$9.8 million for the three months ended June 30, 2012 and 2011, respectively. VITAS made purchases from OCR of \$20.3 million and \$19.1 million for the six months ended June 30, 2012 and 2011, respectively. For the three and six month periods ending June 30, 2012 and 2011, respectively, purchases from this vendor represent over 90% of all pharmacy services used by VITAS.

#### 12. Cash Overdrafts and Cash Equivalents

Included in accounts payable at June 30, 2012 is cash overdrafts payable of \$11.3 million (December 31, 2011 - \$10.3 million).

From time to time throughout the year, we invest excess cash in money market funds with major commercial banks. We closely monitor the creditworthiness of the institutions with which we invest our overnight funds. We had \$53.4 million in cash equivalents as of June 30, 2012. There was \$32.5 million in cash equivalents as of December 31, 2011. The weighted average rate of return for our cash equivalents was 0.2% for June 30, 2012 and 0.1% for December 31, 2011.

#### 13. Financial Instruments

FASB's authoritative guidance on fair value measurements 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, 2012 (in thousands):

|  | Carrying Value | Quoted Prices in<br>Active Markets<br>for<br>Identical Assets<br>(Level 1) | Fair Value Measure<br>Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs (Level<br>3) |
|--|----------------|--|---|--|
| Mutual fund investments of<br>deferred<br>compensation plans held in trust | \$ 33,215      | \$ 33,215  | \$ -  | \$ -   |
| Long-term debt   | 170,769        | 187,984  | -   | -  |

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.

#### 14. Capital Stock Transactions

We repurchased the following capital stock for the three and six-months ended June 30, 2012 and 2011:

|                                     | Three months ended June 30,<br>2012 | 2011 | Six months ended June 30,<br>2012 | 2011     |
|-------------------------------------|-------------------------------------|------|-----------------------------------|----------|
| Shares repurchased                  | 199,900                             | -    | 199,900                           | 341,513  |
| Weighted average price per<br>share | \$ 55.72                            | \$ - | \$ 55.72                          | \$ 63.79 |

#### 15. Business Combinations

In the first six months of 2012, we completed three business combinations within our Roto-Rooter segment for \$1.5 million in cash to increase our market penetration in Bend, Oregon; Shreveport, Louisiana; and Boise, Idaho. A substantial portion of this aggregate purchase price was allocated to goodwill. The operating results of these business combinations have been included in our results of operations since the acquisition date and are not material for the three and six-month periods ended June 30, 2012 nor for the comparable prior year periods.

## 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, 2012 and December 31, 2011 for the balance sheet, the three and six months ended June 30, 2012 and June 30, 2011 for the income statement and the six months ended June 30, 2012 and June 30, 2011 for the statement of cash flows (dollars in thousands):

| June 30, 2012  | Parent    | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|--|-----------|---------------------------|-------------------------------|------------------------------|--------------|
| <b>ASSETS</b>  |           |                           |                               |                              |              |
| Cash and cash equivalents  | \$53,280  | \$ (803 )                 | \$ 7,489                      | \$ -                         | \$ 59,966    |
| Accounts receivable, less allowances                             | 1,082     | 80,120                    | 609                           | -                            | 81,811       |
| Intercompany receivables   | -         | 303,347                   | -                             | (303,347 )                   | -            |
| Inventories - net  | -         | 7,414                     | 732                           | -                            | 8,146        |
| Current deferred income taxes                                    | (1,311 )  | 14,329                    | 208                           | -                            | 13,226       |
| Prepaid income taxes   | 4,701     | (890 )                    | 376                           | -                            | 4,187        |
| Prepaid expenses   | 980       | 9,554                     | 203                           | -                            | 10,737       |
| Total current assets   | 58,732    | 413,071                   | 9,617                         | (303,347 )                   | 178,073      |
| Investments of deferred compensation plans                       | -         | -                         | 33,215                        | -                            | 33,215       |
| Properties and equipment, at cost, less accumulated depreciation | 11,203    | 74,761                    | 2,607                         | -                            | 88,571       |
| Identifiable intangible assets less accumulated amortization     | -         | 57,635                    | -                             | -                            | 57,635       |
| Goodwill   | -         | 457,487                   | 4,478                         | -                            | 461,965      |
| Other assets   | 7,010     | 1,733                     | 2,926                         | -                            | 11,669       |
| Investments in subsidiaries                                      | 833,241   | 23,043                    | -                             | (856,284 )                   | -            |
| Total assets   | \$910,186 | \$ 1,027,730              | \$ 52,843                     | \$ (1,159,631 )              | \$ 831,128   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                      |           |                           |                               |                              |              |
| Accounts payable   | \$(748 )  | \$ 51,304                 | \$ 446                        | \$ -                         | \$ 51,002    |
| Intercompany payables  | 298,601   | -                         | 4,746                         | (303,347 )                   | -            |
| Income taxes   | -         | -                         | 167                           | -                            | 167          |
| Accrued insurance  | 402       | 36,384                    | -                             | -                            | 36,786       |
| Accrued compensation   | 2,020     | 37,166                    | 543                           | -                            | 39,729       |
| Other current liabilities  | 1,992     | 12,618                    | 296                           | -                            | 14,906       |
| Total current liabilities  | 302,267   | 137,472                   | 6,198                         | (303,347 )                   | 142,590      |
| Deferred income taxes  | (13,314 ) | 49,264                    | (10,693 )                     | -                            | 25,257       |
| Long-term debt   | 170,769   | -                         | -                             | -                            | 170,769      |
| Deferred compensation liabilities                                | -         | 30                        | 33,119                        | -                            | 33,149       |
| Other liabilities  | 3,019     | 6,394                     | 2,505                         | -                            | 11,918       |
| Stockholders' equity   | 447,445   | 834,570                   | 21,714                        | (856,284 )                   | 447,445      |
| Total liabilities and stockholders' equity                       | \$910,186 | \$ 1,027,730              | \$ 52,843                     | \$ (1,159,631 )              | \$ 831,128   |
| <b>December 31, 2011</b>   |           |                           |                               |                              |              |
|  | Parent    | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
| <b>ASSETS</b>  |           |                           |                               |                              |              |

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|  |           |            |           |                 |            |
|--|-----------|------------|-----------|-----------------|------------|
| Cash and cash equivalents  | \$32,470  | \$(1,422 ) | \$ 7,033  | \$ -            | \$ 38,081  |
| Accounts receivable, less allowances                             | 606       | 76,816     | 502       | -               | 77,924     |
| Intercompany receivables   | -         | 273,413    | -         | (273,413 )      | -          |
| Inventories - net  | -         | 8,032      | 636       | -               | 8,668      |
| Current deferred income taxes                                    | (650 )    | 13,059     | 131       | -               | 12,540     |
| Prepaid income taxes   | (114 )    | 1,689      | 556       | -               | 2,131      |
| Prepaid expenses   | 503       | 10,757     | 149       | -               | 11,409     |
| Total current assets   | 32,815    | 382,344    | 9,007     | (273,413 )      | 150,753    |
| Investments of deferred compensation plans                       | -         | -          | 31,629    | -               | 31,629     |
| Properties and equipment, at cost, less accumulated depreciation | 11,641    | 68,755     | 2,555     | -               | 82,951     |
| Identifiable intangible assets less accumulated amortization     | -         | 58,262     | -         | -               | 58,262     |
| Goodwill   | -         | 456,183    | 4,450     | -               | 460,633    |
| Other assets   | 7,616     | 1,552      | 2,509     | -               | 11,677     |
| Investments in subsidiaries                                      | 793,277   | 21,148     | -         | (814,425 )      | -          |
| Total assets   | \$845,349 | \$988,244  | \$ 50,150 | \$ (1,087,838 ) | \$ 795,905 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                      |           |            |           |                 |            |
| Accounts payable   | \$(683 )  | \$48,490   | \$ 418    | \$ -            | \$ 48,225  |
| Intercompany payables  | 269,042   | -          | 4,371     | (273,413 )      | -          |
| Income taxes   | -         | -          | 90        | -               | 90         |
| Accrued insurance  | 489       | 36,658     | -         | -               | 37,147     |
| Accrued compensation   | 3,828     | 36,655     | 604       | -               | 41,087     |
| Other current liabilities  | 1,719     | 15,728     | 1,404     | -               | 18,851     |
| Total current liabilities  | 274,395   | 137,531    | 6,887     | (273,413 )      | 145,400    |
| Deferred income taxes  | (12,330 ) | 51,601     | (9,808 )  | -               | 29,463     |
| Long-term debt   | 166,784   | -          | -         | -               | 166,784    |
| Deferred compensation liabilities                                | -         | -          | 30,693    | -               | 30,693     |
| Other liabilities  | 2,816     | 4,630      | 2,435     | -               | 9,881      |
| Stockholders' equity   | 413,684   | 794,482    | 19,943    | (814,425 )      | 413,684    |
| Total liabilities and stockholders' equity                       | \$845,349 | \$988,244  | \$ 50,150 | \$ (1,087,838 ) | \$ 795,905 |



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| For the three months ended June 30, 2012     | Parent   | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|----------|------------------------|----------------------------|---------------------------|--------------|
| <b>Continuing Operations</b>                 |          |                        |                            |                           |              |
| Service revenues and sales                   | \$-      | \$ 347,017             | \$ 7,153                   | \$ -                      | \$ 354,170   |
| Cost of services provided and goods sold     | -        | 253,434                | 3,934                      | -                         | 257,368      |
| Selling, general and administrative expenses | 5,937    | 43,356                 | 477                        | -                         | 49,770       |
| Depreciation                                 | 234      | 5,926                  | 220                        | -                         | 6,380        |
| Amortization                                 | 481      | 646                    | -                          | -                         | 1,127        |
| Total costs and expenses                     | 6,652    | 303,362                | 4,631                      | -                         | 314,645      |
| Income/ (loss) from operations               | (6,652 ) | 43,655                 | 2,522                      | -                         | 39,525       |
| Interest expense                             | (3,487 ) | (171 )                 | (14 )                      | -                         | (3,672 )     |
| Other (expense)/income - net                 | 4,340    | (4,357 )               | (953 )                     | -                         | (970 )       |
| Income/ (loss) before income taxes           | (5,799 ) | 39,127                 | 1,555                      | -                         | 34,883       |
| Income tax (provision)/ benefit              | 1,918    | (14,918 )              | (609 )                     | -                         | (13,609 )    |
| Equity in net income of subsidiaries         | 25,155   | 990                    | -                          | (26,145 )                 | -            |
| Net income                                   | \$21,274 | \$ 25,199              | \$ 946                     | \$ (26,145 )              | \$ 21,274    |

| For the three months ended June 30, 2011     | Parent   | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|----------|------------------------|----------------------------|---------------------------|--------------|
| <b>Continuing Operations</b>                 |          |                        |                            |                           |              |
| Service revenues and sales                   | \$-      | \$ 326,406             | \$ 6,954                   | \$ -                      | \$ 333,360   |
| Cost of services provided and goods sold     | -        | 235,855                | 3,742                      | -                         | 239,597      |
| Selling, general and administrative expenses | 5,574    | 42,441                 | 2,409                      | -                         | 50,424       |
| Depreciation                                 | 237      | 5,919                  | 202                        | -                         | 6,358        |
| Amortization                                 | 465      | 674                    | -                          | -                         | 1,139        |
| Total costs and expenses                     | 6,276    | 284,889                | 6,353                      | -                         | 297,518      |
| Income/ (loss) from operations               | (6,276 ) | 41,517                 | 601                        | -                         | 35,842       |
| Interest expense                             | (3,321 ) | (140 )                 | -                          | -                         | (3,461 )     |
| Other (expense)/income - net                 | 3,862    | (3,888 )               | 740                        | -                         | 714          |
| Income/ (loss) before income taxes           | (5,735 ) | 37,489                 | 1,341                      | -                         | 33,095       |
| Income tax (provision)/ benefit              | 1,783    | (14,083 )              | (509 )                     | -                         | (12,809 )    |
| Equity in net income of subsidiaries         | 24,238   | 875                    | -                          | (25,113 )                 | -            |
| Net income                                   | \$20,286 | \$ 24,281              | \$ 832                     | \$ (25,113 )              | \$ 20,286    |

| For the six months ended June 30, 2012       | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|--------|------------------------|----------------------------|---------------------------|--------------|
| <b>Continuing Operations</b>                 |        |                        |                            |                           |              |
| Service revenues and sales                   | \$-    | \$ 692,631             | \$ 14,482                  | \$ -                      | \$ 707,113   |
| Cost of services provided and goods sold     | -      | 506,861                | 7,952                      | -                         | 514,813      |
| Selling, general and administrative expenses | 11,133 | 87,703                 | 4,101                      | -                         | 102,937      |
| Depreciation                                 | 467    | 11,717                 | 437                        | -                         | 12,621       |
| Amortization                                 | 951    | 1,289                  | -                          | -                         | 2,240        |
| Total costs and expenses                     | 12,551 | 607,570                | 12,490                     | -                         | 632,611      |

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|                                      |           |           |          |              |           |
|--------------------------------------|-----------|-----------|----------|--------------|-----------|
| Income/ (loss) from operations       | (12,551 ) | 85,061    | 1,992    | -            | 74,502    |
| Interest expense                     | (6,920 )  | (340 )    | (29 )    | -            | (7,289 )  |
| Other (expense)/income - net         | 8,746     | (8,798 )  | 1,177    | -            | 1,125     |
| Income/ (loss) before income taxes   | (10,725 ) | 75,923    | 3,140    | -            | 68,338    |
| Income tax (provision)/ benefit      | 3,499     | (28,882 ) | (1,236 ) | -            | (26,619 ) |
| Equity in net income of subsidiaries | 48,945    | 1,972     | -        | (50,917 )    | -         |
| Net income                           | \$41,719  | \$49,013  | \$ 1,904 | \$ (50,917 ) | \$ 41,719 |

For the six months ended June 30, 2011

|  | Parent    | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|--|-----------|---------------------------|-------------------------------|------------------------------|--------------|
| <b>Continuing Operations</b>                 |           |                           |                               |                              |              |
| Service revenues and sales                   | \$-       | \$ 650,563                | \$ 13,715                     | \$ -                         | \$ 664,278   |
| Cost of services provided and goods sold     | -         | 469,731                   | 7,324                         | -                            | 477,055      |
| Selling, general and administrative expenses | 12,258    | 88,022                    | 5,798                         | -                            | 106,078      |
| Depreciation                                 | 476       | 11,781                    | 389                           | -                            | 12,646       |
| Amortization                                 | 820       | 1,289                     | -                             | -                            | 2,109        |
| Total costs and expenses                     | 13,554    | 570,823                   | 13,511                        | -                            | 597,888      |
| Income/ (loss) from operations               | (13,554 ) | 79,740                    | 204                           | -                            | 66,390       |
| Interest expense                             | (6,453 )  | (252 )                    | -                             | -                            | (6,705 )     |
| Other (expense)/income - net                 | 7,632     | (7,617 )                  | 2,801                         | -                            | 2,816        |
| Income/ (loss) before income taxes           | (12,375 ) | 71,871                    | 3,005                         | -                            | 62,501       |
| Income tax (provision)/ benefit              | 4,186     | (27,135 )                 | (1,165 )                      | -                            | (24,114 )    |
| Equity in net income of subsidiaries         | 46,576    | 1,908                     | -                             | (48,484 )                    | -            |
| Net income                                   | \$38,387  | \$46,644                  | \$ 1,840                      | \$ (48,484 )                 | \$ 38,387    |

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| For the six months ended June 30, 2012                  | Parent     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidated |
|---|------------|---------------------------|-------------------------------|--------------|
| <b>Cash Flow from Operating Activities:</b>             |            |                           |                               |              |
| Net cash provided by operating activities               | \$(3,716 ) | \$ 57,667                 | \$ 704                        | \$ 54,655    |
| <b>Cash Flow from Investing Activities:</b>             |            |                           |                               |              |
| Capital expenditures                                    | (28 )      | (17,966 )                 | (480 )                        | (18,474 )    |
| Business combinations, net of cash acquired             | -          | (1,500 )                  | -                             | (1,500 )     |
| Other sources/(uses) - net                              | 200        | 167                       | (10 )                         | 357          |
| Net cash used by investing activities                   | 172        | (19,299 )                 | (490 )                        | (19,617 )    |
| <b>Cash Flow from Financing Activities:</b>             |            |                           |                               |              |
| Change in cash overdrafts payable                       | (46 )      | 1,031                     | -                             | 985          |
| Change in intercompany accounts                         | 38,573     | (38,780 )                 | 207                           | -            |
| Dividends paid to shareholders                          | (6,160 )   | -                         | -                             | (6,160 )     |
| Purchases of treasury stock                             | (12,783 )  | -                         | (58 )                         | (12,841 )    |
| Proceeds from exercise of stock options                 | 3,670      | -                         | -                             | 3,670        |
| Realized excess tax benefit on share based compensation | 1,069      | -                         | -                             | 1,069        |
| Other sources - net                                     | 31         | -                         | 93                            | 124          |
| Net cash used by financing activities                   | 24,354     | (37,749 )                 | 242                           | (13,153 )    |
| Net increase in cash and cash equivalents               | 20,810     | 619                       | 456                           | 21,885       |
| Cash and cash equivalents at beginning of year          | 32,470     | (1,422 )                  | 7,033                         | 38,081       |
| Cash and cash equivalents at end of period              | \$53,280   | \$ (803 )                 | \$ 7,489                      | \$ 59,966    |

| For the six months ended June 30, 2011                  | Parent    | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidated |
|---|-----------|---------------------------|-------------------------------|--------------|
| <b>Cash Flow from Operating Activities:</b>             |           |                           |                               |              |
| Net cash provided/(used) by operating activities        | \$3,594   | \$ 48,849                 | \$ (1,316 )                   | \$ 51,127    |
| <b>Cash Flow from Investing Activities:</b>             |           |                           |                               |              |
| Capital expenditures                                    | (5 )      | (14,085 )                 | (870 )                        | (14,960 )    |
| Business combinations, net of cash acquired             | -         | (3,689 )                  | -                             | (3,689 )     |
| Other sources/(uses) - net                              | (103 )    | (771 )                    | 5                             | (869 )       |
| Net cash used by investing activities                   | (108 )    | (18,545 )                 | (865 )                        | (19,518 )    |
| <b>Cash Flow from Financing Activities:</b>             |           |                           |                               |              |
| Purchases of treasury stock                             | (25,438 ) | -                         | (44 )                         | (25,482 )    |
| Change in cash overdrafts payable                       | 698       | (8,512 )                  | -                             | (7,814 )     |
| Change in intercompany accounts                         | 26,733    | (28,804 )                 | 2,071                         | -            |
| Proceeds from exercise of stock options                 | 7,698     | -                         | -                             | 7,698        |
| Dividends paid to shareholders                          | (5,967 )  | -                         | -                             | (5,967 )     |
| Debt issuance costs                                     | (2,723 )  | -                         | -                             | (2,723 )     |
| Realized excess tax benefit on share based compensation | 3,339     | -                         | -                             | 3,339        |
| Other sources - net                                     | 41        | 1                         | 322                           | 364          |
| Net cash provided/(used) by financing activities        | 4,381     | (37,315 )                 | 2,349                         | (30,585 )    |
| Net increase/(decrease) in cash and cash equivalents    | 7,867     | (7,011 )                  | 168                           | 1,024        |
| Cash and cash equivalents at beginning of year          | 45,324    | (1,571 )                  | 6,164                         | 49,917       |
| Cash and cash equivalents at end of period              | \$53,191  | \$ (8,582 )               | \$ 6,332                      | \$ 50,941    |

## 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 (in thousands except per share amounts):

|                                   | Three months ended June 30, |            | Six months ended June 30, |            |
|-----------------------------------|-----------------------------|------------|---------------------------|------------|
|                                   | 2012                        | 2011       | 2012                      | 2011       |
| Service revenues and sales        | \$ 354,170                  | \$ 333,360 | \$ 707,113                | \$ 664,278 |
| Net income                        | \$ 21,274                   | \$ 20,286  | \$ 41,719                 | \$ 38,387  |
| Diluted EPS                       | \$ 1.10                     | \$ 0.94    | \$ 2.16                   | \$ 1.78    |
| Adjusted EBITDA                   | \$ 48,173                   | \$ 46,657  | \$ 94,513                 | \$ 92,275  |
| Adjusted EBITDA as a % of revenue | 13.6 %                      | 14.0 %     | 13.4 %                    | 13.9 %     |

Earnings before interest, taxes and depreciation and amortization ("EBITDA") and Adjusted EBITDA are not measures derived in accordance with GAAP. We use Adjusted EBITDA as a measure of earnings for our long-term incentive plan 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 EBITDA and Adjusted EBITDA is presented on pages 28 and 29.

For the three months ended June 30, 2012, the increase in consolidated service revenues and sales was driven by a 9.1% increase at VITAS partially offset by a 1.4% decrease at Roto-Rooter. The increase in service revenues at VITAS was a result of increased average daily census ("ADC") of 6.0%, driven by an increase in admissions of 4.0%, and Medicare price increases of approximately 2.5%. The decrease in service revenues at Roto-Rooter was driven by a 3.7% decrease in job count partially offset by a 2.2% price and mix shift increase. Consolidated net income increased 4.9%. Diluted EPS increased 17.0% as a result of the increase in net income and a lower number of shares outstanding. Adjusted EBITDA as a percent of revenue decreased 0.4% as a result of the decrease in service revenues at Roto-Rooter. See page 30 for additional VITAS operating metrics.

For the six months ended June 30, 2012, the increase in consolidated service revenues and sales was driven by a 9.9% increase at VITAS partially offset by a 2.4% decrease at Roto-Rooter. The increase in service revenues at VITAS was a result of increased average daily census ("ADC") of 6.0%, driven by an increase in admissions of 3.7% and Medicare price increases of approximately 2.5%. The decrease in service revenues at Roto-Rooter was driven by a 4.9% decrease in job count partially offset by a 2.3% price and mix shift increase. Consolidated net income increased 8.7%. Diluted EPS increased 21.3% as a result of the increase in net income and a lower number of shares outstanding. Adjusted EBITDA as a percent of revenue decreased 0.5% as a result of the decrease in service revenues at Roto-Rooter. See page 30 for additional VITAS operating metrics.

VITAS expects to achieve full-year 2012 revenue growth, prior to Medicare cap, of 7.5% to 9.0%. Admissions are estimated to increase approximately 3.5% to 4.0%. Adjusted EBITDA margin prior to Medicare cap is estimated to be 14.5% to 15.0%. Roto-Rooter expects full-year 2012 revenue growth equal to the prior year. The revenue estimate is a result of increased pricing of approximately 2.0%, a favorable mix shift to higher revenue jobs, with job count estimated to range between down 2.0% to 4.0%. Adjusted EBITDA margin for 2012 is estimated to be in the range of 16.0% to 17.0%. 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, 2011 to June 30, 2012 include the following:

- A \$3.9 million increase in accounts receivable related to the timing of receipts.
- A \$5.6 million increase in properties and equipment due to the opening of the Florida Home Medical Equipment location and a data center relocation.
- A \$2.8 million increase in accounts payable related to timing of payments.
- A \$3.9 million decrease in other current liabilities primarily due to a \$2.6 million decrease in accrued Medicare cap.
- A \$1.4 million decrease in accrued compensation related to the timing of payments of incentive compensation.

Net cash provided by operating activities increased by \$3.5 million due primarily to the change in the increase in net income. 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 \$29.4 million in standby letters of credit as of June 30, 2012, for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of June 30, 2012, we have approximately \$320.6 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the \$150 million 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. We are in compliance with all financial and other debt covenants as of June 30, 2012 and anticipate remaining in compliance throughout 2012.

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 September 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. We are unable to estimate our potential liability, if any, with respect to this case.

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. We contest these allegations. In December 2009, the trial court denied Plaintiffs' motion for class certification. In July 2011, the Court of Appeals affirmed denial of class certification on the travel time, meal and rest period claims, and reversed the trial court's denial on the off-the-clock and sales representation exemption claims. Plaintiffs have filed an appeal of this decision. We are unable to estimate our potential liability or potential range of loss, if any, with respect to this case.

On January 12, 2012, the Greater Pennsylvania Carpenters Pension Fund filed a putative class action lawsuit in the United States District Court for the Southern District of Ohio against the Company, Kevin McNamara, David Williams, and Timothy O'Toole. On April 9, 2012, the Court issued orders (a) renaming the suit as In re Chemed Corp. Securities Litigation, Civil Action No. 1:12-cv-28 (S.D. Ohio), (b) appointing the Greater Pennsylvania Carpenters Pension Fund and the Electrical Workers Pension Fund, Local 103, I.B.E.W. as Lead Plaintiffs; and (c)

approving Lead Plaintiffs' selection of Labaton Sucharow LLP and Robbins Geller Rudman & Dowd LLP as Co-Lead Counsel. On June 18, 2012, Lead Plaintiffs filed an amended complaint alleging violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 against all Defendants, and violation of Section 20(a) of the Securities Exchange Act of 1934 against Messrs. McNamara, Williams and O'Toole. The suit's allegations concern the VITAS hospice segment of the Company's business. Lead Plaintiffs seek, on behalf of a putative class of purchasers of Chemed Capital Stock between February 15, 2010 and November 16, 2011, compensatory damages in an unspecified amount and attorneys' fees and expenses, arising from Defendants' failure to disclose an alleged fraudulent scheme to enroll ineligible hospice patients and to fraudulently obtain payments from the federal government. Defendants are required to move or otherwise respond to the amended complaint on or before August 17, 2012. Defendants believe the claims are without merit, and intend to defend vigorously against them.

Regardless of outcome, defense of litigation adversely affects us through defense costs, diversion of our time and related publicity.

In June 2012, VITAS received an administrative subpoena from the Office of the Inspector General (“OIG”) of the U.S. Department of Health and Human Services in connection with an investigation of possible improper claims submitted to the Medicare and Medicaid Programs. It seeks production to the OIG of various categories of documents concerning the provision of hospice services, for headquarters and its Southern California programs, for the period January 1, 2007 through the date of the subpoena. The categories of documents include policy, procedure and training manuals; documents concerning patient eligibility for hospice care, including referrals, admissions, certification, revocations and census information; documents concerning claims submitted to government programs; certain information concerning employees and their compensation; and documents concerning VITAS’ financial performance. We are conferring with the U.S. Attorney’s Office for the Central District of California regarding the document requests. We cannot predict the timing or outcome of this investigation, or estimate our potential liability, if any.

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 (“CID”) from the State of Texas Attorney General’s Office, seeking related documents. In September 2010, it received a second CID and a second administrative subpoena seeking related documents. In April 2011, the U.S. Attorney provided the Company with a copy of qui tam complaint filed under seal in the U.S. District Court for the Northern District of Texas. The Court unsealed this complaint in November 2011. The U.S. Attorney and the Attorney General for the State of Texas filed a notice in November 2011 that they had decided not to intervene at that time in the case. They continue to investigate its allegations. It was brought by Michael Rehfelt, a former VITAS San Antonio program general manager, against VITAS, the program’s former Regional Vice President Keith Becker, its former Medical Director Justos Cisneros, and their current employers: Wellmed Medical Management, Care Level Management LLC, and Inspiris Inc. Plaintiff dismissed his case against their current employers in March of 2012. The case alleges admission and recertification of inappropriate patients, backdating revocations, and conspiring to admit inappropriate patients to hospice. In June 2011, the U.S. Attorney provided the Company with a partially unsealed second qui tam complaint filed under seal in the U.S. District Court for the Western District of Texas. In June 2011, the U.S. Attorney also provided the Company with a partially unsealed third qui tam complaint filed under seal in the Northern District of Illinois, Eastern Division. We are conferring with the U.S. Attorney regarding the Company’s defenses to each complaint’s allegations. We can neither predict the outcome of this investigation nor estimate our potential liability, if any.

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 investigations. In July 2012, we received an administrative subpoena from the Office of the Attorney General of Florida seeking documents from January 1, 2007 covering areas including billing, marketing, referrals, incentives, patient eligibility for hospice care, claims submitted to government programs, and VITAS’s financial performance. We are conferring with the government’s counsel regarding the document requests. We are unable to estimate the timing or outcome of this investigation or our



potential liability, if any, with respect to this matter.

Regardless of outcome, responding to the subpoenas can adversely affect us through defense costs, diversion of our time and related publicity.

-19-

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## Results of Operations

Three months ended June 30, 2012 versus 2011 - Consolidated Results

Our service revenues and sales for the second quarter of 2012 increased 6.2% versus services and sales revenues for the second quarter of 2011. Of this increase, \$22.1 million was attributable to VITAS partially offset by a \$1.3 million decrease at Roto-Rooter. The following chart shows the components of those changes (in thousands):

|                       | Increase/(Decrease) |         |
|-----------------------|---------------------|---------|
|                       | Amount              | Percent |
| VITAS                 |                     |         |
| Routine homecare      | \$ 16,083           | 9.1     |
| Continuous care       | 3,603               | 9.2     |
| General inpatient     | 2,064               | 7.6     |
| Medicare cap          | 368                 | 100.0   |
| Roto-Rooter           |                     |         |
| Plumbing              | (575)               | (1.3)   |
| Drain cleaning        | (562)               | (1.6)   |
| Contractor Operations | 281                 | 4.3     |
| Other                 | (452)               | (6.8)   |
| Total                 | \$ 20,810           | 6.2     |

The increase in VITAS' revenues for the second quarter of 2012 versus the second quarter of 2011 was a result of increased ADC of 6.0% driven by an increase in admissions of 4.0% and Medicare reimbursement rate increases of approximately 2.5%. The ADC increase was driven by a 6.1% increase in routine homecare, an increase of 4.3% in general inpatient and an increase of a 6.2% in continuous care. In excess of 90% of VITAS' service revenues for the period were from Medicare and Medicaid.

The decrease in plumbing revenues for the second quarter of 2012 versus 2011 is attributable to a 1.8% decrease in the average price per job partially offset by a 0.3% increase in job count. Our excavation job count increased by 8.0% compared to 2011. Drain cleaning revenues for the second quarter of 2012 versus 2011 reflect a 5.6% decrease in the number of jobs performed partially offset by a 4.3% increase in the price per job. Contractor operations revenue increased 4.3% for the second quarter of 2012.

The consolidated gross margin was 27.3% in the second quarter of 2012 as compared with 28.1% in the second quarter of 2011. On a segment basis, VITAS' gross margin was 21.6% in the second quarter of 2012 and 21.9% in the second quarter of 2011. The decrease in VITAS' gross margin is attributable to higher labor costs for admissions and Medicare compliance personnel and the opening of new operations, both new locations and new inpatient units, which carry significant start-up costs as capacity begins to ramp-up. The Roto-Rooter segment's gross margin was 44.3% for the second quarter of 2012 as compared with 45.0% for the second quarter of 2011. The decrease in Roto-Rooter's gross margin is primarily the result of increased medical costs combined with lower revenue.

Selling, general and administrative expenses ("SG&A") comprise (in thousands):

|   | Three months ended June 30, |           |
|---|-----------------------------|-----------|
|   | 2012                        | 2011      |
| SG&A expenses before the impact of market gains of deferred compensation plans            | \$ 50,718                   | \$ 49,681 |
| Impact of market value gains/(losses) on liabilities held in deferred compensation trusts | (948 )                      | 743       |
| Total SG&A expenses   | \$ 49,770                   | \$ 50,424 |

Normal salary increases and revenue related expense increases between periods accounts for the 2.1% increase in SG&A expenses before long-term incentive compensation and the impact of market gains of deferred compensation plans.

Interest expense increased 6.1% between periods primarily as a result of the increase in amortization of bond discount expense.

-20-

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Other income/(expense) comprise (in thousands):

|  | Three months ended June<br>30, |        |
|--|--------------------------------|--------|
|  | 2012                           | 2011   |
| Market value gains/(losses) on assets held in deferred compensation trusts | \$ (948 )                      | \$ 743 |
| Gain/(loss) on disposal of property and equipment                          | (67 )                          | 32     |
| Interest Income  | 59                             | 62     |
| Other  | (14 )                          | (123 ) |
| Total other income/(expense)   | \$ (970 )                      | \$ 714 |

Our effective income tax rate increased to 39.0% in the second quarter of 2012 from 38.7% when compared with the second quarter of 2011.

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

|   | Three Months Ended June<br>30, |             |
|---|--------------------------------|-------------|
|   | 2012                           | 2011        |
| VITAS   |                                |             |
| Legal expenses of OIG investigation                         | \$ (121 )                      | \$ (301 )   |
| Acquisition expenses  | -                              | (31 )       |
| Roto-Rooter   |                                |             |
| Expenses of class action litigation                         | (49 )                          | (113 )      |
| Acquisition expenses  | (12 )                          | 8           |
| Corporate   |                                |             |
| Stock option expense  | (1,502 )                       | (1,620 )    |
| Expenses of securities litigation                           | (124 )                         | -           |
| Noncash impact of change in accounting for convertible debt | (1,248 )                       | (1,155 )    |
| Total   | \$ (3,056 )                    | \$ (3,212 ) |

#### Three months ended June 30, 2012 versus 2011 - Segment Results

The change in after-tax earnings for the second quarter of 2012 versus the second quarter of 2011 is due to (in thousands):

|             |          | Increase/(Decrease) |         |
|-------------|----------|---------------------|---------|
|             | Amount   |                     | Percent |
| VITAS       | \$ 1,844 |                     | 9.9     |
| Roto-Rooter | (1,018 ) | )                   | (11.2 ) |
| Corporate   | 162      |                     | 2.2     |
|             | \$ 988   |                     | 4.9     |

## Results of Operations

## Six months ended June 30, 2012 versus 2011 - Consolidated Results

Our service revenues and sales for the first six months of 2012 increased 6.4% versus services and sales revenues for the first six months of 2011. Of this increase, \$47.3 million was attributable to VITAS partially offset by a \$4.5 million decrease at Roto-Rooter. The following chart shows the components of those changes (in thousands):

|                       | Increase/(Decrease) |         |
|-----------------------|---------------------|---------|
|                       | Amount              | Percent |
| VITAS                 |                     |         |
| Routine homecare      | \$34,028            | 9.8     |
| Continuous care       | 7,499               | 9.6     |
| General inpatient     | 3,830               | 7.0     |
| Medicare cap          | 1,935               | 301.4   |
| Roto-Rooter           |                     |         |
| Plumbing              | (1,938)             | (2.2)   |
| Drain cleaning        | (2,142)             | (3.0)   |
| Contractor Operations | 452                 | 3.5     |
| Other                 | (829)               | (6.1)   |
| Total                 | \$ 42,835           | 6.4     |

The increase in VITAS' revenues for the first six months of 2012 versus the first six months of 2011 was a result of increased ADC of 6.0% driven by an increase in admissions of 3.7% and Medicare reimbursement rate increases of approximately 2.5%. The ADC increase was driven by a 6.1% increase in routine homecare, an increase of 4.5% in general inpatient and an increase of a 5.5% in continuous care. Medicare cap increased 301.4% as a result of the reversal of amounts recorded in the fourth quarter of 2011 due to improving admissions trends. In excess of 90% of VITAS' service revenues for the period were from Medicare and Medicaid.

The decrease in plumbing revenues for the first six months of 2012 versus 2011 is attributable to a 0.9% decrease in the number of jobs performed as well as a 1.5% decrease in the average price per job. Our excavation job count increased by 7.1% compared to 2011. Drain cleaning revenues for the first six months of 2012 versus 2011 reflect a 6.9% decrease in the number of jobs performed partially offset by a 4.2% increase in the price per job. Contractor operations revenue increased 3.5% for the first six months of 2012.

The consolidated gross margin was 27.2% for the first six months of 2012 as compared with 28.2% for the first six months of 2011. On a segment basis, VITAS' gross margin was 21.4% for the first six months of 2012 and 21.8% for the first six months of 2011. The decrease in VITAS' gross margin is attributable to higher labor costs for admissions and Medicare compliance personnel and the opening of new operations, both new locations and new inpatient units, which carry significant start-up costs as capacity begins to ramp-up. The Roto-Rooter segment's gross margin was 44.0% for the first six months of 2012 as compared with 44.6% for the first six months of 2011. The decrease in Roto-Rooter's gross margin is primarily the result of increased medical costs combined with lower revenue.

Selling, general and administrative expenses ("SG&A") comprise (in thousands):

|  | Six months ended June 30, |            |
|--|---------------------------|------------|
|  | 2012                      | 2011       |
| SG&A expenses before long-term incentive compensation and the impact of market gains and losses of deferred compensation plans | \$ 101,752                | \$ 100,259 |
| Long-term incentive compensation   | -                         | 3,012      |

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|   |            |            |
|---|------------|------------|
| Impact of market value gains on liabilities held in<br>deferred compensation trusts | 1,185      | 2,807      |
| Total SG&A expenses   | \$ 102,937 | \$ 106,078 |

Normal salary increases and revenue related expense increases between periods accounts for the 1.5% increase in SG&A expenses before long-term incentive compensation and the impact of market gains of deferred compensation plans.

-22-

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Interest expense increased 8.7% between periods as a result of the debt refinancing that took place in the first quarter of 2011.

Other income/(expense) comprise (in thousands):

|   | Six months ended June<br>30, |         |
|---|------------------------------|---------|
|   | 2012                         | 2011    |
| Market value gains on assets held in deferred compensation trusts | \$1,185                      | \$2,807 |
| Gain/(loss) on disposal of property and equipment                 | (148 )                       | 11      |
| Interest Income   | 110                          | 123     |
| Other   | (22 )                        | (125 )  |
| Total other income  | \$1,125                      | \$2,816 |

Our effective income tax rate increased to 39.0% for the first six months of 2012 from 38.6% when compared with the first six months of 2011.

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

|   | Six Months Ended June<br>30, |            |
|---|------------------------------|------------|
|   | 2012                         | 2011       |
| VITAS   |                              |            |
| Legal expenses of OIG investigation                         | \$(165 )                     | \$(618 )   |
| Acquisition expenses  | -                            | (71 )      |
| Roto-Rooter   |                              |            |
| Expenses of class action litigation                         | (442 )                       | (414 )     |
| Acquisition expenses  | (21 )                        | 4          |
| Corporate   |                              |            |
| Stock option expense  | (2,727 )                     | (2,843 )   |
| Expenses of securities litigation                           | (124 )                       | -          |
| Noncash impact of change in accounting for convertible debt | (2,472 )                     | (2,287 )   |
| Long-term incentive compensation                            | -                            | (1,880 )   |
| Total   | \$(5,951 )                   | \$(8,109 ) |

Six months ended June 30, 2012 versus 2011 - Segment Results

The change in after-tax earnings for the first six months of 2012 versus the first months six of 2011 is due to (in thousands):

|             | Amount   | Increase/(Decrease) | Percent |
|-------------|----------|---------------------|---------|
| VITAS       | \$ 3,346 |                     | 9.1     |
| Roto-Rooter | (2,033 ) | )                   | (11.5 ) |
| Corporate   | 2,019    |                     | 12.7    |
|             | \$ 3,332 |                     | 8.7     |





CHEMED CORPORATION AND SUBSIDIARY COMPANIES  
CONSOLIDATING STATEMENT OF INCOME  
FOR THE THREE MONTHS ENDED JUNE 30, 2012  
(in thousands)(unaudited)

|  | VITAS     | Roto-Rooter | Corporate  | Chemed<br>Consolidated |
|--|-----------|-------------|------------|------------------------|
| 2012 (a)                                     |           |             |            |                        |
| Service revenues and sales                   | \$265,213 | \$ 88,957   | \$-        | \$ 354,170             |
| Cost of services provided and goods sold     | 207,839   | 49,529      | -          | 257,368                |
| Selling, general and administrative expenses | 20,471    | 24,372      | 4,927      | 49,770                 |
| Depreciation                                 | 4,164     | 2,085       | 131        | 6,380                  |
| Amortization                                 | 488       | 157         | 482        | 1,127                  |
| Total costs and expenses                     | 232,962   | 76,143      | 5,540      | 314,645                |
| Income/(loss) from operations                | 32,251    | 12,814      | (5,540 )   | 39,525                 |
| Interest expense                             | (63 )     | (107 )      | (3,502 )   | (3,672 )               |
| Intercompany interest income/(expense)       | 812       | 430         | (1,242 )   | -                      |
| Other income/(expense)—net                   | (1 )      | (33 )       | (936 )     | (970 )                 |
| Income/(expense) before income taxes         | 32,999    | 13,104      | (11,220 )  | 34,883                 |
| Income taxes                                 | (12,566 ) | (5,030 )    | 3,987      | (13,609 )              |
| Net income/(loss)                            | \$20,433  | \$ 8,074    | \$(7,233 ) | \$ 21,274              |

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

|   | VITAS    | Roto-Rooter | Corporate  | Chemed<br>Consolidated |
|---|----------|-------------|------------|------------------------|
| Pretax benefit/(cost):                            |          |             |            |                        |
| Stock option expense                              | \$-      | \$ -        | \$(2,374 ) | \$ (2,374 )            |
| Noncash impact of accounting for convertible debt | -        | -           | (1,973 )   | (1,973 )               |
| Expenses of class action litigation               | -        | (80 )       | -          | (80 )                  |
| Expenses of securities litigation                 | -        | -           | (197 )     | (197 )                 |
| Acquisition expenses                              | -        | (20 )       | -          | (20 )                  |
| Legal expenses of OIG investigation               | (195 )   | -           | -          | (195 )                 |
| Total   | \$(195 ) | \$(100 )    | \$(4,544 ) | \$ (4,839 )            |

|   | VITAS    | Roto-Rooter | Corporate  | Chemed<br>Consolidated |
|---|----------|-------------|------------|------------------------|
| After-tax benefit/(cost):                         |          |             |            |                        |
| Stock option expense                              | \$-      | \$ -        | \$(1,502 ) | \$ (1,502 )            |
| Noncash impact of accounting for convertible debt | -        | -           | (1,248 )   | (1,248 )               |
| Expenses of class action litigation               | -        | (49 )       | -          | (49 )                  |
| Expenses of securities litigation                 | -        | -           | (124 )     | (124 )                 |
| Acquisition expenses                              | -        | (12 )       | -          | (12 )                  |
| Legal expenses of OIG investigation               | (121 )   | -           | -          | (121 )                 |
| Total   | \$(121 ) | \$(61 )     | \$(2,874 ) | \$ (3,056 )            |

CHEMED CORPORATION AND SUBSIDIARY COMPANIES  
CONSOLIDATING STATEMENT OF INCOME  
FOR THE THREE MONTHS ENDED JUNE 30, 2011  
(in thousands)(unaudited)

|  | VITAS     | Roto-Rooter | Corporate  | Chemed<br>Consolidated |
|--|-----------|-------------|------------|------------------------|
| 2011 (a)                                     |           |             |            |                        |
| Service revenues and sales                   | \$243,095 | \$ 90,265   | \$-        | \$ 333,360             |
| Cost of services provided and goods sold     | 189,940   | 49,657      | -          | 239,597                |
| Selling, general and administrative expenses | 19,735    | 24,384      | 6,305      | 50,424                 |
| Depreciation                                 | 4,199     | 2,025       | 134        | 6,358                  |
| Amortization                                 | 520       | 155         | 464        | 1,139                  |
| Total costs and expenses                     | 214,394   | 76,221      | 6,903      | 297,518                |
| Income/(loss) from operations                | 28,701    | 14,044      | (6,903 )   | 35,842                 |
| Interest expense                             | (62 )     | (77 )       | (3,322 )   | (3,461 )               |
| Intercompany interest income/(expense)       | 1,215     | 652         | (1,867 )   | -                      |
| Other income/(expense)—net                   | (90 )     | 15          | 789        | 714                    |
| Income/(expense) before income taxes         | 29,764    | 14,634      | (11,303 )  | 33,095                 |
| Income taxes                                 | (11,175 ) | (5,542 )    | 3,908      | (12,809 )              |
| Net income/(loss)                            | \$18,589  | \$ 9,092    | \$(7,395 ) | \$ 20,286              |

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

|   | VITAS    | Roto-Rooter | Corporate  | Chemed<br>Consolidated |
|---|----------|-------------|------------|------------------------|
| Pretax benefit/(cost):                            |          |             |            |                        |
| Stock option expense                              | \$-      | \$ -        | \$(2,562 ) | \$ (2,562 )            |
| Noncash impact of accounting for convertible debt | -        | -           | (1,825 )   | (1,825 )               |
| Expenses of class action litigation               | -        | (186 )      | -          | (186 )                 |
| Acquisition expenses                              | (51 )    | 12          | -          | (39 )                  |
| Legal expenses of OIG investigation               | (486 )   | -           | -          | (486 )                 |
| Total   | \$(537 ) | \$(174 )    | \$(4,387 ) | \$ (5,098 )            |

|   | VITAS    | Roto-Rooter | Corporate  | Chemed<br>Consolidated |
|---|----------|-------------|------------|------------------------|
| After-tax benefit/(cost):                         |          |             |            |                        |
| Stock option expense                              | \$-      | \$ -        | \$(1,620 ) | \$ (1,620 )            |
| Noncash impact of accounting for convertible debt | -        | -           | (1,155 )   | (1,155 )               |
| Expenses of class action litigation               | -        | (113 )      | -          | (113 )                 |
| Acquisition expenses                              | (31 )    | 8           | -          | (23 )                  |
| Legal expenses of OIG investigation               | (301 )   | -           | -          | (301 )                 |
| Total   | \$(332 ) | \$(105 )    | \$(2,775 ) | \$ (3,212 )            |

CHEMED CORPORATION AND SUBSIDIARY COMPANIES  
CONSOLIDATING STATEMENT OF INCOME  
FOR THE SIX MONTHS ENDED JUNE 30, 2012  
(in thousands)(unaudited)

|   | VITAS      | Roto-Rooter | Corporate    | Chemed<br>Consolidated |
|---|------------|-------------|--------------|------------------------|
| 2012 (a)  |            |             |              |                        |
| Service revenues and sales                      | \$ 526,060 | \$ 181,053  | \$ -         | \$ 707,113             |
| Cost of services provided and<br>goods sold     | 413,459    | 101,354     | -            | 514,813                |
| Selling, general and administrative<br>expenses | 40,219     | 50,525      | 12,193       | 102,937                |
| Depreciation                                    | 8,188      | 4,171       | 262          | 12,621                 |
| Amortization                                    | 978        | 311         | 951          | 2,240                  |
| Total costs and expenses                        | 462,844    | 156,361     | 13,406       | 632,611                |
| Income/(loss) from operations                   | 63,216     | 24,692      | (13,406 )    | 74,502                 |
| Interest expense                                | (126 )     | (214 )      | (6,949 )     | (7,289 )               |
| Intercompany interest<br>income/(expense)       | 1,566      | 825         | (2,391 )     | -                      |
| Other income/(expense)—net                      | (32 )      | (54 )       | 1,211        | 1,125                  |
| Income/(expense) before income<br>taxes         | 64,624     | 25,249      | (21,535 )    | 68,338                 |
| Income taxes                                    | (24,564 )  | (9,680 )    | 7,625        | (26,619 )              |
| Net income/(loss)                               | \$ 40,060  | \$ 15,569   | \$ (13,910 ) | \$ 41,719              |

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

|  | VITAS     | Roto-Rooter | Corporate   | Chemed<br>Consolidated |
|--|-----------|-------------|-------------|------------------------|
| Pretax benefit/(cost):                               |           |             |             |                        |
| Stock option expense                                 | \$ -      | \$ -        | \$ (4,312 ) | \$ (4,312 )            |
| Noncash impact of accounting<br>for convertible debt | -         | -           | (3,908 )    | (3,908 )               |
| Expenses of class action<br>litigation               | -         | (727 )      | -           | (727 )                 |
| Expenses of securities litigation                    | -         | -           | (197 )      | (197 )                 |
| Acquisition expenses                                 | -         | (35 )       | -           | (35 )                  |
| Legal expenses of OIG<br>investigation               | (266 )    | -           | -           | (266 )                 |
| Total  | \$ (266 ) | \$ (762 )   | \$ (8,417 ) | \$ (9,445 )            |

|  | VITAS | Roto-Rooter | Corporate   | Chemed<br>Consolidated |
|--|-------|-------------|-------------|------------------------|
| After-tax benefit/(cost):                            |       |             |             |                        |
| Stock option expense                                 | \$ -  | \$ -        | \$ (2,727 ) | \$ (2,727 )            |
| Noncash impact of accounting<br>for convertible debt | -     | -           | (2,472 )    | (2,472 )               |

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|                                     |           |           |             |             |
|-------------------------------------|-----------|-----------|-------------|-------------|
| Expenses of class action litigation | -         | (442 )    | -           | (442 )      |
| Expenses of securities litigation   | -         | -         | (124 )      | (124 )      |
| Acquisition expenses                | -         | (21 )     | -           | (21 )       |
| Legal expenses of OIG investigation | (165 )    | -         | -           | (165 )      |
| Total                               | \$ (165 ) | \$ (463 ) | \$ (5,323 ) | \$ (5,951 ) |

-26-

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CHEMED CORPORATION AND SUBSIDIARY COMPANIES  
CONSOLIDATING STATEMENT OF INCOME  
FOR THE SIX MONTHS ENDED JUNE 30, 2011  
(in thousands)(unaudited)

|  | VITAS      | Roto-Rooter | Corporate    | Chemed<br>Consolidated |
|--|------------|-------------|--------------|------------------------|
| 2011 (a)                                     |            |             |              |                        |
| Service revenues and sales                   | \$ 478,768 | \$ 185,510  | \$ -         | \$ 664,278             |
| Cost of services provided and goods sold     | 374,241    | 102,814     | -            | 477,055                |
| Selling, general and administrative expenses | 38,446     | 51,124      | 16,508       | 106,078                |
| Depreciation                                 | 8,366      | 4,009       | 271          | 12,646                 |
| Amortization                                 | 1,003      | 287         | 819          | 2,109                  |
| Total costs and expenses                     | 422,056    | 158,234     | 17,598       | 597,888                |
| Income/(loss) from operations                | 56,712     | 27,276      | (17,598 )    | 66,390                 |
| Interest expense                             | (110 )     | (142 )      | (6,453 )     | (6,705 )               |
| Intercompany interest income/(expense)       | 2,428      | 1,291       | (3,719 )     | -                      |
| Other income/(expense)—net                   | (59 )      | 5           | 2,870        | 2,816                  |
| Income/(expense) before income taxes         | 58,971     | 28,430      | (24,900 )    | 62,501                 |
| Income taxes                                 | (22,257 )  | (10,828 )   | 8,971        | (24,114 )              |
| Net income/(loss)                            | \$ 36,714  | \$ 17,602   | \$ (15,929 ) | \$ 38,387              |

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

|   | VITAS       | Roto-Rooter | Corporate    | Chemed<br>Consolidated |
|---|-------------|-------------|--------------|------------------------|
| Pretax benefit/(cost):                            |             |             |              |                        |
| Long-term incentive compensation                  | \$ -        | \$ -        | \$ (3,012 )  | \$ (3,012 )            |
| Stock option expense                              | -           | -           | (4,495 )     | (4,495 )               |
| Noncash impact of accounting for convertible debt | -           | -           | (3,615 )     | (3,615 )               |
| Expenses of class action litigation               | -           | (681 )      | -            | (681 )                 |
| Acquisition expenses                              | (115 )      | 6           | -            | (109 )                 |
| Legal expenses of OIG investigation               | (997 )      | -           | -            | (997 )                 |
| Total   | \$ (1,112 ) | \$ (675 )   | \$ (11,122 ) | \$ (12,909 )           |

|                                  | VITAS | Roto-Rooter | Corporate | Chemed<br>Consolidated |
|----------------------------------|-------|-------------|-----------|------------------------|
| After-tax benefit/(cost):        | \$    | \$          | \$        | \$                     |
| Long-term incentive compensation | -     | -           | (2,287 )  | (2,287 )               |
| Stock option expense             | -     | -           | (2,843 )  | (2,843 )               |

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|  |           |           |             |             |
|--|-----------|-----------|-------------|-------------|
| Noncash impact of accounting<br>for convertible debt | -         | -         | (1,880 )    | (1,880 )    |
| Expenses of class action<br>litigation               | -         | (414 )    | -           | (414 )      |
| Acquisition expenses                                 | (71 )     | 4         | -           | (67 )       |
| Legal expenses of OIG<br>investigation               | (618 )    | -         | -           | (618 )      |
| Total  | \$ (689 ) | \$ (410 ) | \$ (7,010 ) | \$ (8,109 ) |

-27-

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## Consolidating Summary and Reconciliation of Adjusted EBITDA

## Chemed Corporation and Subsidiary Companies

(in thousands)

For the three months ended June 30, 2012

|  | VITAS    | Roto-Rooter | Corporate | Chemed<br>Consolidated |
|--|----------|-------------|-----------|------------------------|
| Net income/(loss)                      | \$20,433 | \$8,074     | \$(7,233) | ) \$21,274             |
| Add/(deduct):                          |          |             |           |                        |
| Interest expense                       | 63       | 107         | 3,502     | 3,672                  |
| Income taxes                           | 12,566   | 5,030       | (3,987)   | ) 13,609               |
| Depreciation                           | 4,164    | 2,085       | 131       | 6,380                  |
| Amortization                           | 488      | 157         | 482       | 1,127                  |
| EBITDA                                 | 37,714   | 15,453      | (7,105)   | ) 46,062               |
| Add/(deduct):                          |          |             |           |                        |
| Legal expenses of OIG investigation    | 195      | -           | -         | 195                    |
| Acquisition expenses                   | -        | 20          | -         | 20                     |
| Expenses of class action litigation    | -        | 80          | -         | 80                     |
| Expenses of securities litigation      | -        | -           | 197       | 197                    |
| Stock option expense                   | -        | -           | 2,374     | 2,374                  |
| Advertising cost adjustment            | -        | (696)       | -         | (696)                  |
| Interest income                        | (42)     | ) (2)       | ) (15)    | ) (59)                 |
| Intercompany interest income/(expense) | (812)    | ) (430)     | ) 1,242   | -                      |
| Adjusted EBITDA                        | \$37,055 | \$14,425    | \$(3,307) | ) \$48,173             |

|  | VITAS    | Roto-Rooter | Corporate | Chemed<br>Consolidated |
|--|----------|-------------|-----------|------------------------|
| For the three months ended June 30, 2011 |          |             |           |                        |
| Net income/(loss)                        | \$18,589 | \$9,092     | \$(7,395) | ) \$20,286             |
| Add/(deduct):                            |          |             |           |                        |
| Interest expense                         | 62       | 77          | 3,322     | 3,461                  |
| Income taxes                             | 11,175   | 5,542       | (3,908)   | ) 12,809               |
| Depreciation                             | 4,199    | 2,025       | 134       | 6,358                  |
| Amortization                             | 520      | 155         | 464       | 1,139                  |
| EBITDA                                   | 34,545   | 16,891      | (7,383)   | ) 44,053               |
| Add/(deduct):                            |          |             |           |                        |
| Legal expenses of OIG investigation      | 486      | -           | -         | 486                    |
| Acquisition expenses                     | 51       | (12)        | ) -       | 39                     |
| Expenses of class action litigation      | -        | 186         | -         | 186                    |
| Stock option expense                     | -        | -           | 2,562     | 2,562                  |
| Advertising cost adjustment              | -        | (607)       | -         | (607)                  |
| Interest income                          | (7)      | ) (9)       | ) (46)    | ) (62)                 |
| Intercompany interest income/(expense)   | (1,215)  | ) (652)     | ) 1,867   | -                      |
| Adjusted EBITDA                          | \$33,860 | \$15,797    | \$(3,000) | ) \$46,657             |

## Consolidating Summary and Reconciliation of Adjusted EBITDA

## Chemed Corporation and Subsidiary Companies

(in thousands)

| For the six months ended June 30, 2012 | VITAS    | Roto-Rooter | Corporate   | Chemed<br>Consolidated |
|--|----------|-------------|-------------|------------------------|
| Net income/(loss)                      | \$40,060 | \$ 15,569   | \$(13,910 ) | \$41,719               |
| Add/(deduct):                          |          |             |             |                        |
| Interest expense                       | 126      | 214         | 6,949       | 7,289                  |
| Income taxes                           | 24,564   | 9,680       | (7,625 )    | 26,619                 |
| Depreciation                           | 8,188    | 4,171       | 262         | 12,621                 |
| Amortization                           | 978      | 311         | 951         | 2,240                  |
| EBITDA                                 | 73,916   | 29,945      | (13,373 )   | 90,488                 |
| Add/(deduct):                          |          |             |             |                        |
| Legal expenses of OIG investigation    | 266      | -           | -           | 266                    |
| Acquisition expenses                   | -        | 35          | -           | 35                     |
| Expenses of class action litigation    | -        | 727         | -           | 727                    |
| Expenses of securities litigation      | -        | -           | 197         | 197                    |
| Stock option expense                   | -        | -           | 4,312       | 4,312                  |
| Advertising cost adjustment            | -        | (1,402 )    | -           | (1,402 )               |
| Interest income                        | (72 )    | (10 )       | (28 )       | (110 )                 |
| Intercompany interest income/(expense) | (1,566 ) | (825 )      | 2,391       | -                      |
| Adjusted EBITDA                        | \$72,544 | \$28,470    | \$(6,501 )  | \$94,513               |

| For the six months ended June 30, 2011 | VITAS    | Roto-Rooter | Corporate   | Chemed<br>Consolidated |
|--|----------|-------------|-------------|------------------------|
| Net income/(loss)                      | \$36,714 | \$ 17,602   | \$(15,929 ) | \$38,387               |
| Add/(deduct):                          |          |             |             |                        |
| Interest expense                       | 110      | 142         | 6,453       | 6,705                  |
| Income taxes                           | 22,257   | 10,828      | (8,971 )    | 24,114                 |
| Depreciation                           | 8,366    | 4,009       | 271         | 12,646                 |
| Amortization                           | 1,003    | 287         | 819         | 2,109                  |
| EBITDA                                 | 68,450   | 32,868      | (17,357 )   | 83,961                 |
| Add/(deduct):                          |          |             |             |                        |
| Legal expenses of OIG investigation    | 997      | -           | -           | 997                    |
| Acquisition expenses                   | 115      | (6 )        | -           | 109                    |
| Expenses of class action litigation    | -        | 681         | -           | 681                    |
| Long-term incentive compensation       | -        | -           | 3,012       | 3,012                  |
| Stock option expense                   | -        | -           | 4,495       | 4,495                  |
| Advertising cost adjustment            | -        | (857 )      | -           | (857 )                 |
| Interest income                        | (44 )    | (16 )       | (63 )       | (123 )                 |
| Intercompany interest income/(expense) | (2,428 ) | (1,291 )    | 3,719       | -                      |
| Adjusted EBITDA                        | \$67,090 | \$31,379    | \$(6,194 )  | \$92,275               |



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

| OPERATING STATISTICS  | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|---|-----------------------------|------------|---------------------------|------------|
|   | 2012                        | 2011       | 2012                      | 2011       |
| Net revenue (\$000)   |                             |            |                           |            |
| Homecare  | \$ 193,150                  | \$ 177,067 | \$ 379,747                | \$ 345,719 |
| Inpatient   | 29,247                      | 27,183     | 58,399                    | 54,569     |
| Continuous care   | 42,816                      | 39,213     | 85,337                    | 77,838     |
| Total before Medicare cap allowance                             | \$ 265,213                  | \$ 243,463 | \$ 523,483                | \$ 478,126 |
| Medicare cap allowance  | -                           | (368 )     | 2,577                     | 642        |
| Total   | \$ 265,213                  | \$ 243,095 | \$ 526,060                | \$ 478,768 |
| Net revenue as a percent of total before Medicare cap allowance |                             |            |                           |            |
| Homecare  | 72.9 %                      | 72.7 %     | 72.5 %                    | 72.2 %     |
| Inpatient   | 11.0                        | 11.2       | 11.2                      | 11.4       |
| Continuous care   | 16.1                        | 16.1       | 16.3                      | 16.4       |
| Total before Medicare cap allowance                             | 100.0                       | 100.0      | 100.0                     | 100.0      |
| Medicare cap allowance  | -                           | (0.2 )     | 0.5                       | 0.1        |
| Total   | 100.0 %                     | 99.8 %     | 100.5 %                   | 100.1 %    |
| Average daily census (days)                                     |                             |            |                           |            |
| Homecare  | 9,971                       | 9,229      | 9,792                     | 9,031      |
| Nursing home  | 3,036                       | 3,034      | 3,011                     | 3,034      |
| Routine homecare  | 13,007                      | 12,263     | 12,803                    | 12,065     |
| Inpatient   | 466                         | 447        | 469                       | 449        |
| Continuous care   | 638                         | 601        | 635                       | 602        |
| Total   | 14,111                      | 13,311     | 13,907                    | 13,116     |
| Total Admissions  | 15,912                      | 15,294     | 32,234                    | 31,092     |
| Total Discharges  | 15,508                      | 14,885     | 31,707                    | 30,419     |
| Average length of stay (days)                                   | 74.0                        | 77.1       | 78.3                      | 78.0       |
| Median length of stay (days)                                    | 14.0                        | 14.0       | 14.0                      | 14.0       |
| ADC by major diagnosis  |                             |            |                           |            |
| Neurological  | 33.6 %                      | 34.2 %     | 34.0 %                    | 34.2 %     |
| Cancer  | 17.7                        | 17.7       | 17.8                      | 17.8       |
| Cardio  | 11.6                        | 11.5       | 11.5                      | 11.7       |
| Respiratory   | 6.7                         | 6.9        | 6.7                       | 6.8        |
| Other   | 30.4                        | 29.7       | 30.0                      | 29.5       |
| Total   | 100.0 %                     | 100.0 %    | 100.0 %                   | 100.0 %    |
| Admissions by major diagnosis                                   |                             |            |                           |            |
| Neurological  | 18.9 %                      | 19.4 %     | 19.2 %                    | 19.5 %     |
| Cancer  | 33.5                        | 32.8       | 32.9                      | 32.2       |
| Cardio  | 10.8                        | 10.8       | 11.3                      | 11.0       |
| Respiratory   | 8.1                         | 8.5        | 8.5                       | 8.8        |
| Other   | 28.7                        | 28.5       | 28.1                      | 28.5       |
| Total   | 100.0 %                     | 100.0 %    | 100.0 %                   | 100.0 %    |

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|  |           |   |           |   |           |   |           |   |
|--|-----------|---|-----------|---|-----------|---|-----------|---|
| Direct patient care margins  |           |   |           |   |           |   |           |   |
| Routine homecare   | 52.4      | % | 52.4      | % | 51.4      | % | 51.7      | % |
| Inpatient  | 12.7      |   | 13.3      |   | 13.4      |   | 13.1      |   |
| Continuous care  | 19.7      |   | 20.2      |   | 19.8      |   | 20.4      |   |
| Homecare margin drivers<br>(dollars per patient day)                     |           |   |           |   |           |   |           |   |
| Labor costs  | \$ 54.56  |   | \$ 53.23  |   | \$ 56.13  |   | \$ 54.28  |   |
| Drug costs   | 8.31      |   | 8.21      |   | 8.32      |   | 8.08      |   |
| Home medical equipment   | 6.79      |   | 6.66      |   | 6.80      |   | 6.66      |   |
| Medical supplies   | 2.79      |   | 2.83      |   | 2.77      |   | 2.79      |   |
| Inpatient margin drivers (dollars<br>per patient day)                    |           |   |           |   |           |   |           |   |
| Labor costs  | \$ 321.16 |   | \$ 311.26 |   | \$ 317.73 |   | \$ 308.97 |   |
| Continuous care margin drivers<br>(dollars per patient day)              |           |   |           |   |           |   |           |   |
| Labor costs  | \$ 569.98 |   | \$ 550.40 |   | \$ 569.76 |   | \$ 547.29 |   |
| Bad debt expense as a percent of<br>revenues                             |           |   |           |   |           |   |           |   |
|  | 0.8       | % | 0.8       | % | 0.8       | % | 0.7       | % |
| Accounts receivable --   |           |   |           |   |           |   |           |   |
| Days of revenue outstanding-<br>excluding unapplied Medicare<br>payments |           |   |           |   |           |   |           |   |
|  | 35.0      |   | 37.2      |   | n.a       |   | n.a       |   |
| Days of revenue outstanding-<br>including unapplied Medicare<br>payments |           |   |           |   |           |   |           |   |
|  | 30.6      |   | 36.8      |   | 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, 2012, we had no variable rate debt outstanding. At June 30, 2012, the fair value of the Notes approximates \$188.0 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 program for the first six months of 2012:

|   | Total<br>Number<br><br>of Shares<br>Repurchased | Weighted<br>Average<br><br>Price Paid Per<br>Share | Cumulative<br>Shares<br>Repurchased<br>Under<br>the Program | Dollar Amount<br><br>Remaining Under<br>The Program |
|---|---|--|---|---|
| February 2011 Program                           |   |  |   |   |
| January 1 through January 31, 2012              | -   | \$ -   | 2,602,513   | \$ 75,268,254                                       |
| February 1 through February 29,<br>2012         | -   | -  | 2,602,513   | 75,268,254  |
| March 1 through March 31, 2012                  | -   | -  | 2,602,513   | \$ 75,268,254                                       |
| First Quarter Total - February 2011<br>Program  | -   | \$ -   |   |   |
| April 1 through April 30, 2012                  | -   | \$ -   | 2,602,513   | \$ 75,268,254                                       |
| May 31 through May 31, 2012                     | 168,812   | 55.77  | 2,771,325   | 65,853,060  |
| June 1 through June 30, 2012                    | 31,088  | 55.42  | 2,802,413   | \$ 64,130,136                                       |
| Second Quarter Total - February<br>2011 Program | 199,900   | \$ 55.72   |   |   |

## Item 3. Defaults Upon Senior Securities

None

## Item 4. Mine Safety Disclosures

None

## Item 5. Other Information

None

## Item 6. Exhibits

| Exhibit No. | Description  |
|-------------|--|
| 31.1        | 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. |

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|         |  |
|---------|--|
| 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.DEF | XBRL Taxonomy Extension Definition Linkbase  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase  |

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: August 2, 2012 By: /s/ Kevin J. McNamara  
Kevin J. McNamara  
(President and Chief Executive Officer)

Dated: August 2, 2012 By: /s/ David P. Williams  
David P. Williams  
(Executive Vice President and Chief Financial Officer)

Dated: August 2, 2012 By: /s/ Arthur V. Tucker, Jr.  
Arthur V. Tucker, Jr.  
(Vice President and Controller)