

CHEMED CORP  
Form 10-Q  
October 23, 2008

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

(Mark One)

Quarterly Report Under Section 13 or 15 (d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended September 30, 2008

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

Commission File Number: 1-8351

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

Delaware  
(State or other jurisdiction of incorporation or organization)

31-0791746  
(IRS Employer Identification No.)

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

45202  
(Zip code)

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

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

Yes  No

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

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

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

Yes  No

Edgar Filing: CHEMED CORP - Form 10-Q

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

| Class                       | Amount            | Date               |
|-----------------------------|-------------------|--------------------|
| Capital Stock \$1 Par Value | 22,369,968 Shares | September 30, 2008 |

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/>September 30, 2008 and December 31, 2007</u>                      | <u>3</u>  |
| <u>Unaudited Consolidated Statement of Income -<br/>Three and nine months ended September 30, 2008 and 2007</u> | <u>4</u>  |
| <u>Unaudited Consolidated Statement of Cash Flows -<br/>Nine months ended September 30, 2008 and 2007</u>       | <u>5</u>  |
| <u>Notes to Unaudited Financial Statements</u>  | <u>6</u>  |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>            | <u>15</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>                                       | <u>22</u> |
| <u>Item 4. Controls and Procedures</u>  | <u>22</u> |
| <u>PART II. OTHER INFORMATION</u>   |           |
| <u>Item 2 (c). Purchases of Equity Securities by Issuer and Affiliated Purchasers</u>                           | <u>22</u> |
| <u>Item 6. Exhibits</u>   | <u>23</u> |

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

CHEMED CORPORATION, INC. AND SUBSIDIARY  
COMPANIES

## UNAUDITED CONSOLIDATED BALANCE SHEET

(in thousands except share and per share data)

|  | September 30,<br>2008 | December 31,<br>2007 |
|--|-----------------------|----------------------|
| <b>ASSETS</b>  |                       |                      |
| Current assets   |                       |                      |
| Cash and cash equivalents  | \$ 6,804              | \$ 4,988             |
| Accounts receivable less allowances of \$10,347<br>(2007 - \$9,746)                                | 88,206                | 101,170              |
| Inventories  | 7,494                 | 6,596                |
| Current deferred income taxes  | 15,500                | 14,212               |
| Prepaid expenses and other current assets  | 7,702                 | 10,496               |
| Total current assets   | 125,706               | 137,462              |
| Investments of deferred compensation plans held in<br>trust  | 28,897                | 29,417               |
| Notes receivable   | -                     | 9,701                |
| Properties and equipment, at cost, less accumulated<br>depreciation of \$99, 446 (2007 - \$88,639) | 70,970                | 74,513               |
| Identifiable intangible assets less accumulated<br>amortization of \$20,267 (2007 - \$17,245)      | 62,152                | 65,177               |
| Goodwill   | 439,909               | 438,689              |
| Other assets   | 16,042                | 15,411               |
| Total Assets   | \$ 743,676            | \$ 770,370           |
| <b>LIABILITIES</b>   |                       |                      |
| Current liabilities  |                       |                      |
| Accounts payable   | \$ 46,187             | \$ 46,168            |
| Current portion of long-term debt  | 10,166                | 10,162               |
| Income taxes   | 2,736                 | 4,221                |
| Accrued insurance  | 34,567                | 36,337               |
| Accrued compensation   | 38,385                | 40,072               |
| Other current liabilities  | 13,412                | 13,929               |
| Total current liabilities  | 145,453               | 150,889              |
| Deferred income taxes  | 4,849                 | 5,802                |
| Long-term debt   | 207,070               | 214,669              |
| Deferred compensation liabilities  | 29,133                | 29,149               |
| Other liabilities  | 6,123                 | 5,512                |
| Total liabilities  | 392,628               | 406,021              |
| <b>STOCKHOLDERS' EQUITY</b>  |                       |                      |
| Capital stock - authorized 80,000,000 shares \$1 par;<br>issued                                    |                       |                      |
| 29,445,706 shares (2007 - 29,260,791 shares)   | 29,446                | 29,261               |

Edgar Filing: CHEMED CORP - Form 10-Q

|  |            |    |           |
|--|------------|----|-----------|
| Paid-in capital  | 277,602    |    | 267,312   |
| Retained earnings  | 326,002    |    | 278,336   |
| Treasury stock - 7,075,738 shares (2007 - 5,299,056 shares), at cost | (284,436)  |    | (213,041) |
| Deferred compensation payable in Company stock                       | 2,434      |    | 2,481     |
| Total Stockholders' Equity   | 351,048    |    | 364,349   |
| Total Liabilities and Stockholders' Equity                           | \$ 743,676 | \$ | 770,370   |

See accompanying notes to unaudited financial statements.

-3-

---

CHEMED CORPORATION AND SUBSIDIARY  
COMPANIES  
UNAUDITED CONSOLIDATED STATEMENT OF  
INCOME

(in thousands, except per share data)

|  | Three Months Ended<br>September 30,<br>2008 | 2007       | Nine Months Ended<br>September 30,<br>2008 | 2007       |
|--|---|------------|--|------------|
| <b>Continuing Operations</b>   |   |            |  |            |
| Service revenues and sales   | \$ 288,312                                  | \$ 272,503 | \$ 856,736                                 | \$ 814,329 |
| Cost of services provided and goods sold<br>(excluding depreciation) | 202,446                                     | 192,882    | 609,397                                    | 569,845    |
| Selling, general and administrative<br>expenses                      | 44,022                                      | 42,526     | 133,070                                    | 136,686    |
| Depreciation   | 5,441                                       | 5,220      | 16,249                                     | 14,897     |
| Amortization   | 1,494                                       | 1,292      | 4,433                                      | 3,901      |
| Other operating income   | -   | -          | -  | (1,138)    |
| Total costs and expenses   | 253,403                                     | 241,920    | 763,149                                    | 724,191    |
| Income from operations   | 34,909                                      | 30,583     | 93,587                                     | 90,138     |
| Interest expense   | (1,570)                                     | (2,515)    | (4,589)                                    | (9,657)    |
| Loss on extinguishment of debt                                       | -   | (83)       | -  | (13,798)   |
| Other (expense)/income--net  | (1,908)                                     | 11         | (2,211)                                    | 3,068      |
| Income before income taxes   | 31,431                                      | 27,996     | 86,787                                     | 69,751     |
| Income taxes   | (13,483)                                    | (11,080)   | (34,769)                                   | (27,181)   |
| Income from continuing operations                                    | 17,948                                      | 16,916     | 52,018                                     | 42,570     |
| Discontinued operations, net of<br>income taxes                      | -   | 1,201      | -  | 1,201      |
| Net income   | \$ 17,948                                   | \$ 18,117  | \$ 52,018                                  | \$ 43,771  |
| <b>Earnings Per Share</b>  |   |            |  |            |
| Income from continuing operations                                    | \$ 0.80                                     | \$ 0.71    | \$ 2.23                                    | \$ 1.72    |
| Net income   | \$ 0.80                                     | \$ 0.76    | \$ 2.23                                    | \$ 1.77    |
| Average number of share<br>outstanding                               | 22,503                                      | 23,933     | 23,285                                     | 24,711     |
| <b>Diluted Earnings Per Share</b>                                    |   |            |  |            |
| Income from continuing operations                                    | \$ 0.79                                     | \$ 0.69    | \$ 2.20                                    | \$ 1.69    |
| Net income   | \$ 0.79                                     | \$ 0.74    | \$ 2.20                                    | \$ 1.73    |
| Average number of share<br>outstanding                               | 22,818                                      | 24,466     | 23,620                                     | 25,249     |
| Cash Dividends Per Share   | \$ 0.06                                     | \$ 0.06    | \$ 0.18                                    | \$ 0.18    |

See accompanying notes to unaudited financial statements.



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

|   | Nine Months Ended<br>September 30,<br>2008 | 2007      |
|---|--|-----------|
| Cash Flows from Operating Activities  |  |           |
| Net income  | \$ 52,018                                  | \$ 43,771 |
| Adjustments to reconcile net income to net cash provided by operating activities:                 |  |           |
| Depreciation and amortization   | 20,682                                     | 18,798    |
| Provision for uncollectible accounts receivable   | 7,101                                      | 6,025     |
| Stock option expense  | 5,084                                      | 3,074     |
| Provision for deferred income taxes   | (2,257)                                    | (1,388)   |
| Amortization of debt issuance costs   | 760  | 970       |
| Discontinued operations   | -  | (1,201)   |
| Write off unamortized debt issuance costs   | -  | 7,235     |
| Noncash long-term incentive compensation  | -  | 6,154     |
| Changes in operating assets and liabilities, excluding amounts acquired in business combinations: |  |           |
| Decrease in accounts receivable   | 5,846                                      | 4,796     |
| Increase in inventories   | (851)                                      | (246)     |
| Decrease in prepaid expenses and other current assets   | 2,804                                      | 2,964     |
| Decrease in accounts payable and other current liabilities  | (875)                                      | (9,873)   |
| Increase/(decrease) in income taxes   | (329)                                      | 11,825    |
| Increase in other assets  | (547)                                      | (3,109)   |
| Increase in other liabilities   | 674  | 3,908     |
| Excess tax benefit on share-based compensation  | (1,234)                                    | (2,506)   |
| Other sources/(uses)  | 654  | (1,054)   |
| Net cash provided by operating activities   | 89,530                                     | 90,143    |
| Cash Flows from Investing Activities  |  |           |
| Capital expenditures  | (13,103)                                   | (20,145)  |
| Net sources/(uses) from disposals of discontinued operations                                      | 8,980                                      | (6,121)   |
| Business combinations, net of cash acquired   | (1,578)                                    | (1,079)   |
| Proceeds from sales of property and equipment   | 200  | 3,072     |
| Other uses  | (421)                                      | (1,415)   |
| Net cash used by investing activities   | (5,922)                                    | (25,688)  |
| Cash Flows from Financing Activities  |  |           |
| Purchases of treasury stock   | (69,136)                                   | (130,873) |
| Repayment of long-term debt   | (7,595)                                    | (215,644) |
| Dividends paid  | (4,352)                                    | (4,441)   |
| Increase in cash overdraft payable  | (1,913)                                    | 2,554     |
| Excess tax benefit on share-based compensation  | 1,234                                      | 2,506     |
| Issuance of capital stock   | 290  | 2,429     |



Edgar Filing: CHEMED CORP - Form 10-Q

|  |          |    |          |
|--|----------|----|----------|
| Proceeds from issuance of long-term debt         | -        |    | 300,000  |
| Purchases of note hedges                         | -        |    | (55,093) |
| Proceeds from issuance of warrants               | -        |    | 27,614   |
| Debt issuance costs                              | -        |    | (6,887)  |
| Other sources/(uses)                             | (320)    |    | 836      |
| Net cash used by financing activities            | (81,792) |    | (76,999) |
| Increase/(Decrease) in Cash and Cash Equivalents | 1,816    |    | (12,544) |
| Cash and cash equivalents at beginning of year   | 4,988    |    | 29,274   |
| Cash and cash equivalents at end of period       | \$ 6,804 | \$ | 16,730   |

See accompanying notes to unaudited financial statements.

## CHEMED CORPORATION AND SUBSIDIARY COMPANIES

## Notes to Unaudited Financial Statements

## 1. Basis of Presentation

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

We have prepared the accompanying unaudited consolidated financial statements of Chemed in accordance with Rule 10-01 of SEC Regulation S-X. Consequently, we have omitted certain disclosures required under generally accepted accounting principles in the United States ("GAAP") for complete financial statements. The December 31, 2007 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, 2007. Certain 2007 amounts have been reclassified to conform with current period presentation on the balance sheet related to the presentation of Medicaid nursing home pass-through activity at our VITAS subsidiary.

## 2. Segments

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

|                            | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |            |
|----------------------------|-------------------------------------|------------|------------------------------------|------------|
|                            | 2008                                | 2007       | 2008                               | 2007       |
| Service Revenues and Sales |                                     |            |                                    |            |
| VITAS                      | \$ 204,956                          | \$ 188,474 | \$ 602,589                         | \$ 558,224 |
| Roto-Rooter                | 83,356                              | 84,029     | 254,147                            | 256,105    |
| Total                      | \$ 288,312                          | \$ 272,503 | \$ 856,736                         | \$ 814,329 |
| Aftertax Earnings          |                                     |            |                                    |            |
| VITAS                      | \$ 17,561                           | \$ 13,921  | \$ 45,180                          | \$ 43,062  |
| Roto-Rooter                | 7,957                               | 9,236      | 25,445                             | 29,233     |
| Total                      | 25,518                              | 23,157     | 70,625                             | 72,295     |
| Corporate                  | (7,570)                             | (6,241)    | (18,607)                           | (29,725)   |
| Discontinued operations    | -                                   | 1,201      | -                                  | 1,201      |
| Net income                 | \$ 17,948                           | \$ 18,117  | \$ 52,018                          | \$ 43,771  |

Beginning on January 1, 2008, the income statement impact of our deferred compensation plans covering Roto-Rooter employees has been classified as a Corporate activity. Historically, the income statement impact has been recorded as a Roto-Rooter activity. Due to the volatility in the capital markets, Roto-Rooter's operational results were being distorted in our management reporting as a result of the activity of the deferred compensation plans. Our Chief Operating Decision Maker, Kevin McNamara, determined that the income statement impact of Roto-Rooter's deferred compensation plans is more appropriately classified as a Corporate activity. Our internal management reporting documents have been changed to reflect this determination. The comparable prior-year period has been reclassified to conform to the current-year presentation.

## 3. Revenue Recognition

Both the VITAS segment and 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

caps, as described below.

As of September 30, 2008, VITAS has approximately \$12.1 million in unbilled revenue included in accounts receivable (December 31, 2007 - \$9.5 million). The unbilled revenue at VITAS relates to hospice programs currently undergoing focused medical reviews (FMR). During FMR, surveyors working on behalf of the U.S. Federal government review certain patient files for compliance with Medicare regulations. During the time the patient file is under review, we are unable to bill for care provided to those patients. During the past year, the pace of FMR activity has increased industry-wide, resulting in our significant unbilled revenue balances. We make appropriate provisions to reduce our accounts receivable balance for potential denials of patient service revenue due to FMR activity.

-6-

---

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. As of the date of this filing, for the 2007 and 2008 measurement periods, we estimate that no programs have a required Medicare billing reduction. Therefore, no revenue reduction for Medicare cap has been recorded for the three or nine-month periods ended September 30, 2008.

#### 4. Earnings per Share

Earnings per share are computed using the weighted average number of shares of capital stock outstanding. Earnings and diluted earnings per share for 2008 and 2007 are computed as follows (in thousands, except per share data):

| For the Three Months<br>Ended September 30,<br>2008 | Income from Continuing Operations |        |                       | Net Income |        |                       |
|---|-----------------------------------|--------|-----------------------|------------|--------|-----------------------|
|   | Income                            | Shares | Earnings<br>per Share | Income     | Shares | Earnings<br>per Share |
| Earnings  | \$ 17,948                         | 22,503 | \$ 0.80               | \$ 17,948  | 22,503 | \$ 0.80               |
| Dilutive stock options                              | -                                 | 287    | -                     | -          | 287    | -                     |
| Nonvested stock awards                              | -                                 | 28     | -                     | -          | 28     | -                     |
| Diluted earnings                                    | \$ 17,948                         | 22,818 | \$ 0.79               | \$ 17,948  | 22,818 | \$ 0.79               |
| 2007  |                                   |        |                       |            |        |                       |
| Earnings  | \$ 16,916                         | 23,933 | \$ 0.71               | \$ 18,117  | 23,933 | \$ 0.76               |
| Dilutive stock options                              | -                                 | 462    | -                     | -          | 462    | -                     |
| Nonvested stock awards                              | -                                 | 71     | -                     | -          | 71     | -                     |
| Diluted earnings                                    | \$ 16,916                         | 24,466 | \$ 0.69               | \$ 18,117  | 24,466 | \$ 0.74               |
| For the Nine Months<br>Ended September 30,<br>2008  |                                   |        |                       |            |        |                       |
| Earnings  | \$ 52,018                         | 23,285 | \$ 2.23               | \$ 52,018  | 23,285 | \$ 2.23               |
| Dilutive stock options                              | -                                 | 305    | -                     | -          | 305    | -                     |
| Nonvested stock awards                              | -                                 | 30     | -                     | -          | 30     | -                     |
| Diluted earnings                                    | \$ 52,018                         | 23,620 | \$ 2.20               | \$ 52,018  | 23,620 | \$ 2.20               |
| 2007  |                                   |        |                       |            |        |                       |
| Earnings  | \$ 42,570                         | 24,711 | \$ 1.72               | \$ 43,771  | 24,711 | \$ 1.77               |
| Dilutive stock options                              | -                                 | 463    | -                     | -          | 463    | -                     |
| Nonvested stock awards                              | -                                 | 75     | -                     | -          | 75     | -                     |
| Diluted earnings                                    | \$ 42,570                         | 25,249 | \$ 1.69               | \$ 43,771  | 25,249 | \$ 1.73               |

For each of the three and nine month periods ended September 30, 2008, 829,000 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 quarter. No stock options were excluded for the comparable period in 2007.

Diluted earnings per share may be impacted in future periods as the result of the issuance of our \$200 million Convertible Notes and related purchased call options and sold warrants. Under EITF 04-8 "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share" and EITF 90-19, we will not include any shares related to the Convertible Notes in our calculation of diluted earnings per share until our average stock price for a quarter exceeds the conversion price of \$80.73. 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.

-7-

---

Edgar Filing: CHEMED CORP - Form 10-Q

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

| Share Price | Shares Underlying 1.875% Convertible Notes | Warrant Shares | Total Treasury Method Incremental Shares (a) | Shares Due to the Company under Notes Hedges | Incremental Shares Issued by the Company upon Conversion (b) |
|-------------|--|----------------|--|--|--|
| \$ 80.73    | -  | -              | -  | -  | -  |
| \$ 90.73    | 273,061                                    | -              | 273,061                                      | (273,061)                                    | -  |
| \$ 100.73   | 491,905                                    | -              | 491,905                                      | (491,905)                                    | -  |
| \$ 110.73   | 671,222                                    | 118,359        | 789,581                                      | (671,222)                                    | 118,359  |
| \$ 120.73   | 820,833                                    | 313,764        | 1,134,597                                    | (820,833)                                    | 313,764  |
| \$ 130.73   | 947,556                                    | 479,274        | 1,426,830                                    | (947,556)                                    | 479,274  |

(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

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

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

|  | Three Months Ended September 30, |        | Nine Months Ended September 30, |          |
|--|----------------------------------|--------|---------------------------------|----------|
|  | 2008                             | 2007   | 2008                            | 2007     |
| Interest income  | \$ 159                           | \$ 897 | \$ 602                          | \$ 2,608 |
| (Loss)/gain on trading investments of employee benefit trust | (1,944)                          | (522)  | (2,625)                         | 927      |
| Loss on disposal of property and equipment                   | (147)                            | (57)   | (260)                           | (250)    |
| Other - net  | 24                               | (307)  | 72                              | (217)    |
| Total other (expense)/income                                 | \$ (1,908)                       | \$ 11  | \$ (2,211)                      | \$ 3,068 |

#### 6. Long-Term Debt

We are in compliance with all debt covenants as of September 30, 2008. We have issued \$27.3 million in standby letters of credit as of September 30, 2008 mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of September 30, 2008, we have approximately \$147.7 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the expansion feature.

#### 7. Stock-Based Compensation Awards

On May 19, 2008, the Compensation/Incentive Committee of the Board of Directors ("CIC") approved a grant of 508,600 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 \$5.3 million and will be recognized ratably over the three year vesting period. We used the Black-Scholes option valuation method to determine the cumulative compensation expense of the grant.



On February 13, 2008, the CIC approved a grant of 40,315 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 \$2.1 million and will be recognized ratably over the four-year vesting period. We assumed no forfeitures in determining the cumulative compensation expense of the grant.

#### 8. Loans Receivable from Independent Contractors

The Roto-Rooter segment sublicenses with approximately sixty-three independent contractors to operate certain plumbing repair and drain cleaning businesses in lesser-populated areas of the United States and Canada. As of September 30, 2008, we had notes receivable from our independent contractors totaling \$1.7 million (December 31, 2007 - \$1.6 million). In most cases these loans are fully or partially secured by equipment owned by the contractor. The interest rates on the loans range from zero to 8% per annum and the remaining terms of the loans range from 2 months to 5 years. During the three months ended September 30, 2008, we recorded revenues of \$5.3 million (2007 - \$5.3 million) and pretax profits of \$2.5 million (2007 - \$2.3 million) from our independent contractors. During the nine months ended September 30, 2008, we recorded revenues of \$16.5 million (2007 - \$16.2 million) and pretax profits of \$7.6 million (2007 - \$7.1 million) from our independent contractors.

We have adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 46R "Consolidation of Variable Interest Entities--an interpretation of Accounting Research Bulletin No. 51 (revised)" ("FIN 46R") relative to our contractual relationships with the independent contractors. FIN 46R requires the primary beneficiary of a Variable Interest Entity ("VIE") to consolidate the accounts of the VIE. We have evaluated our relationships with our independent contractors based upon guidance provided in FIN 46R and have concluded that some of the contractors who have loans payable to us may be VIE's. We believe consolidation, if required, of the accounts of any VIE's for which we might be the primary beneficiary would not materially impact our financial position, results of operations or cash flows.

#### 9. Pension and Retirement Plans

All of the Company's plans that provide retirement and similar benefits are defined contribution plans. Expenses for the Company's pension and profit-sharing plans, excess benefit plans and other similar plans were \$838,000 and \$2.0 million for the three months ended September 30, 2008 and 2007, respectively. Expenses for the Company's pension and profit-sharing plans, excess benefit plans and other similar plans were \$6.3 million and \$9.7 million for the nine months ended September 30, 2008 and 2007, respectively.

#### 10. Litigation

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 ("Santos"). This case alleges failure to pay overtime and failure to provide meal and rest periods to a purported class of California admissions nurses, chaplains and sales representatives. The case seeks payment of penalties, interest and Plaintiffs' attorney fees. VITAS contests these allegations. The lawsuit is in its early stages and we are unable to estimate our potential liability, if any, with respect to these allegations.

In April 2007, our Roto-Rooter subsidiary was named in a class action lawsuit filed in San Mateo Superior Court by Stanley Ita ("Ita") alleging class-wide wage and hour violations at one California branch. This suit alleges failure to provide meal and break periods, credit for work time beginning from the first call to dispatch rather than arrival at first assignment and improper calculations of work time and overtime. The case sought payment of penalties, interest and Plaintiffs' attorney fees. After the suit was filed, we offered a settlement to certain members of the class and paid approximately \$200,000. In January 2008, we agreed to a tentative settlement with the remaining members of the class for approximately \$1.8 million. The tentative settlement was preliminarily approved by the court in May 2008. Final approval and payment of the settlement was made in August 2008. The settlement was accrued in the fourth quarter of 2007.



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

#### 11. OIG Investigation

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 are appealing this dismissal. Pretax expenses related to complying with OIG requests were immaterial for the three and nine months ended September 30, 2008 and 2007.

The government continues to investigate the complaint's allegations. We are unable to predict the outcome of this matter or the impact, if any, that the investigation may have on our business, results of operations, liquidity or capital resources. Regardless of outcome, responding to the subpoenas and defending the litigation can adversely affect us through defense costs, diversion of our time and related publicity.

#### 12. Related Party Agreement

In October 2004, VITAS entered into a pharmacy services agreement ("Agreement") with Omnicare, Inc. ("OCR") whereby OCR provides specified pharmacy services for VITAS and its hospice patients in geographical areas served by both VITAS and OCR. The Agreement has an initial term of three years that renews automatically for one-year terms. Either party may cancel the Agreement at the end of any term by giving written notice at least 90 days prior to the end of said term. In June 2004, VITAS entered into a pharmacy services agreement with excelleRx. The agreement has a one-year term and automatically renews unless either party provides a 90-day written termination notice. Subsequent to June 2004, OCR acquired excelleRx. Under both agreements, VITAS made purchases of \$8.3 million and \$8.6 million for the three months ended September 30, 2008 and 2007, respectively. Under both agreements, VITAS made purchases of \$24.8 million and \$25.1 million for the nine months ended September 30, 2008 and 2007, respectively. VITAS has accounts payable to OCR of \$960,000 at September 30, 2008.

Mr. E. L. Hutton is non-executive Chairman of the Board and a director of the Company. He was a director of OCR until his retirement in the first quarter of 2008 at which time he assumed the honorary post of Chairman Emeritus of OCR's Board. Mr. Joel F. Gemunder, President and Chief Executive Officer of OCR., Ms. Andrea Lindell and Ms. Sandra Laney are directors of both OCR and the Company. Mr. Kevin J. McNamara, President, Chief Executive Officer and a director of the Company, is a director emeritus of OCR. We believe that the terms of these agreements are no less favorable to VITAS than we could negotiate with an unrelated party.

#### 13. Cash Equivalents and Cash Overdrafts Payable

On September 30, 2008, we had \$3.7 million in a mutual fund investing in U.S. Treasury securities. We closely monitor the creditworthiness of the institutions with which we invest our overnight funds and the quality of the collateral underlying those investments.

Included in accounts payable at September 30, 2008 is cash overdrafts payable of \$7.8 million (December 31, 2007 - \$9.5 million).

#### 14. Capital Stock Transactions

On May 19, 2008 our Board of Directors authorized an additional \$56 million to the April 2007 stock repurchase program. For the nine months ended September 30, 2008 and 2007, we repurchased approximately 1.7 million shares at a weighted average cost of \$39.73 per share and 2.1 million shares at a weighted average cost of \$59.82 per share, respectively.

#### 15. Fair Value Measurements

On January 1, 2008, we partially adopted the provisions of Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). This statement defines a hierarchy which prioritizes the inputs in fair value measurements. Level 1 measurements are measurements using quoted prices in active markets for identical assets or liabilities. Level 2 measurements use significant other observable inputs. Level 3 measurements are measurements using significant unobservable inputs which require a company to develop its own assumptions. In recording the fair value of assets and liabilities, companies must use the most reliable measurement available. There was no impact on our financial position or results of operations upon adoption of SFAS 157. We have elected to partially defer adoption of SFAS 157 related to our goodwill and indefinite lived intangible assets in accordance with FASB Staff Position No. 157-2.

Edgar Filing: CHEMED CORP - Form 10-Q

As of September 30, 2008, we hold \$28.9 million of investments in mutual funds and company owned life insurance policies in a Rabbi Trust related to certain of our deferred compensation plans. These investments are valued using quoted prices in active markets for identical investments (Level 1). We do not hold any financial assets for which the market for that asset is inactive.

-10-

---

#### 16. Recent Accounting Statements

In June 2008, the EITF reached a consensus on EITF Issue No. 07-5, “Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity’s Own Stock”. The consensus provides additional guidance when determining whether an option or warrant on an entity’s own shares are eligible for the equity classification provided for in EITF 00-19. The consensus is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the impact of this consensus on our outstanding options and warrants issued in connection with our 2007 convertible debt transaction.

In May 2008, the FASB issued Staff Position No. APB 14-1, “Accounting for Convertible Debt Instruments that may be Settled in Cash Upon Conversion (Including Partial Cash Settlement).” This new guidance requires all convertible debentures classified as Instruments B or C under EITF 90-19 to separately account for the debt and equity pieces of the instrument. At inception of the convertible instrument, cash flows related to the convertible instrument are to be discounted using a market rate of interest. This will create a discount at inception to be recorded in equity. The debt portion is to be accreted to its face value, through interest expense, over the life of the instrument using the effective interest method. This will result in higher interest expense over the life of the instrument and an increase in equity at the inception of the instrument. Debt issuance costs are also to be allocated between the debt and equity components using a rationale method. Finally, the FSP requires that the Company value any embedded features of the instrument, other than the conversion option, as a part of the liability. The new standard is effective for all fiscal years (and interim periods) beginning after December 15, 2008. As such, we will adopt the new standard on January 1, 2009. The FSP is to be applied retrospectively. Upon adoption, our preliminary estimate is that our \$200 million, 1.875% Convertible Debentures issued in May 2007 will have a discount of between \$50 million and \$60 million.

In May 2008, the FASB issued Statement of Financial Accounting Standard No. 162 “The Hierarchy of Generally Accepted Accounting Principles” (“SFAS 162”). The purpose of this standard is to provide a consistent framework for determining what accounting principles should be used when preparing U.S. GAAP financial statements. SFAS 162 categorizes accounting pronouncements in a descending order of authority. In the instance of potentially conflicting accounting principles, the standard in the highest category must be used. This statement will be effective 60 days after the SEC approves the Public Company Accounting and Oversight Board’s related amendments. We believe that SFAS 162 will have no impact on our existing accounting methods.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 141(R) “Business Combinations (revised 2007)” (“SFAS 141(R)”), which changes certain aspects of the accounting for business combinations. This Statement retains the fundamental requirements in Statement No. 141 that the purchase method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141(R) modifies existing accounting guidance in the areas of deal and restructuring costs, acquired contingencies, contingent consideration, in-process research and development, accounting for subsequent tax adjustments and assessing the valuation date. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. There will be no impact on our financial statements as a result of the adoption of SFAS 141(R); however our accounting for all business combinations after adoption will comply with the new standard.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 160 “Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51” (“SFAS 160”), which requires ownership interests in subsidiaries held by others to be clearly identified, labeled and presented in the consolidated balance sheet within equity but separate from the parent company’s equity. SFAS 160 also affects the accounting requirements when the parent company either purchases a higher ownership interest or deconsolidates the equity investment. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. We currently do not have non-controlling interests in our consolidated financial statements.



## 17. Guarantor Subsidiaries

Our 1.875% Notes are fully and unconditionally guaranteed on an unsecured, joint 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 September 30, 2008 and December 31, 2007 for the balance sheet and the three and nine months ended September 30, 2008 and 2007 for the income statement and the statement of cash flows (dollars in thousands):

| As of September 30, 2008   | Parent     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|--|------------|---------------------------|-------------------------------|------------------------------|--------------|
| <b>ASSETS</b>  |            |                           |                               |                              |              |
| Cash and cash equivalents  | \$ 3,879   | \$ (94)                   | \$ 3,019                      | \$ -                         | \$ 6,804     |
| Accounts receivable, less allowances                             | 917        | 86,417                    | 872                           | -                            | 88,206       |
| Intercompany receivables   | -          | 32,805                    | -                             | (32,805)                     | -            |
| Inventories  | -          | 6,828                     | 666                           | -                            | 7,494        |
| Current deferred income taxes                                    | (664)      | 15,923                    | 241                           | -                            | 15,500       |
| Prepaid expenses and other current assets                        | 1,427      | 6,196                     | 79                            | -                            | 7,702        |
| Total current assets   | 5,559      | 148,075                   | 4,877                         | (32,805)                     | 125,706      |
| Investments of deferred compensation plans held in trust         | -          | -                         | 28,897                        | -                            | 28,897       |
| Properties and equipment, at cost, less accumulated depreciation | 4,355      | 64,300                    | 2,315                         | -                            | 70,970       |
| Identifiable intangible assets less accumulated amortization     | -          | 62,151                    | 1                             | -                            | 62,152       |
| Goodwill   | -          | 435,352                   | 4,557                         | -                            | 439,909      |
| Other assets   | 13,208     | 2,545                     | 289                           | -                            | 16,042       |
| Investments in subsidiaries                                      | 552,070    | 13,022                    | -                             | (565,092)                    | -            |
| Total assets   | \$ 575,192 | \$ 725,445                | \$ 40,936                     | \$ (597,897)                 | \$ 743,676   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                      |            |                           |                               |                              |              |
| Accounts payable   | \$ (1,881) | \$ 47,700                 | \$ 368                        | \$ -                         | \$ 46,187    |
| Intercompany payables  | 25,420     | -                         | 7,385                         | (32,805)                     | -            |
| Current portion of long-term debt                                | 10,000     | 166                       | -                             | -                            | 10,166       |
| Income taxes   | (2,597)    | 4,831                     | 502                           | -                            | 2,736        |
| Accrued insurance  | (124)      | 34,691                    | -                             | -                            | 34,567       |
| Accrued salaries and wages                                       | 2,398      | 35,526                    | 461                           | -                            | 38,385       |
| Other current liabilities  | 3,128      | 10,127                    | 157                           | -                            | 13,412       |
| Total current liabilities  | 36,344     | 133,041                   | 8,873                         | (32,805)                     | 145,453      |
| Deferred income taxes  | (23,224)   | 38,387                    | (10,314)                      | -                            | 4,849        |
| Long-term debt   | 207,000    | 70                        | -                             | -                            | 207,070      |
| Deferred compensation liabilities                                | -          | -                         | 29,133                        | -                            | 29,133       |
| Other liabilities  | 4,024      | 2,080                     | 19                            | -                            | 6,123        |
| Stockholders' equity   | 351,048    | 551,867                   | 13,225                        | (565,092)                    | 351,048      |
|  | \$ 575,192 | \$ 725,445                | \$ 40,936                     | \$ (597,897)                 | \$ 743,676   |

Total liabilities and  
stockholders' equity

as of December 31, 2007

|  | Parent     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|--|------------|---------------------------|-------------------------------|------------------------------|--------------|
| <b>ASSETS</b>  |            |                           |                               |                              |              |
| Cash and cash equivalents  | \$ 3,877   | \$ (1,584)                | \$ 2,695                      | \$ -                         | \$ 4,988     |
| Accounts receivable, less<br>allowances                                | 706        | 99,900                    | 564                           | -                            | 101,170      |
| Intercompany receivables   | 42,241     | -                         | (3,925)                       | (38,316)                     | -            |
| Inventories  | -          | 6,116                     | 480                           | -                            | 6,596        |
| Current deferred income<br>taxes                                       | 130        | 13,964                    | 118                           | -                            | 14,212       |
| Prepaid expenses and other<br>current assets                           | 884        | 9,521                     | 91                            | -                            | 10,496       |
| Total current assets   | 47,838     | 127,917                   | 23                            | (38,316)                     | 137,462      |
| Investments of deferred<br>compensation plans held in<br>trust         | -          | -                         | 29,417                        | -                            | 29,417       |
| Note receivable  | 9,701      | -                         | -                             | -                            | 9,701        |
| Properties and equipment, at<br>cost, less accumulated<br>depreciation | 4,306      | 68,303                    | 1,904                         | -                            | 74,513       |
| Identifiable intangible assets<br>less accumulated<br>amortization     | -          | 65,176                    | 1                             | -                            | 65,177       |
| Goodwill   | -          | 433,946                   | 4,743                         | -                            | 438,689      |
| Other assets   | 12,658     | 2,450                     | 303                           | -                            | 15,411       |
| Investments in subsidiaries  | 500,952    | 11,005                    | -                             | (511,957)                    | -            |
| Total assets   | \$ 575,455 | \$ 708,797                | \$ 36,391                     | \$ (550,273)                 | \$ 770,370   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                            |            |                           |                               |                              |              |
| Accounts payable   | \$ (1,236) | \$ 47,035                 | \$ 369                        | \$ -                         | \$ 46,168    |
| Intercompany payables  | -          | 34,992                    | 3,324                         | (38,316)                     | -            |
| Current portion of long-term<br>debt                                   | 10,000     | 162                       | -                             | -                            | 10,162       |
| Income taxes   | 1,137      | 3,034                     | 50                            | -                            | 4,221        |
| Accrued insurance  | 255        | 36,082                    | -                             | -                            | 36,337       |
| Accrued salaries and wages   | 3,882      | 35,505                    | 685                           | -                            | 40,072       |
| Other current liabilities  | 2,047      | 10,486                    | 1,396                         | -                            | 13,929       |
| Total current liabilities  | 16,085     | 167,296                   | 5,824                         | (38,316)                     | 150,889      |
| Deferred income taxes  | (23,174)   | 39,247                    | (10,271)                      | -                            | 5,802        |
| Long-term debt   | 214,500    | 169                       | -                             | -                            | 214,669      |
| Deferred compensation<br>liabilities                                   | -          | -                         | 29,149                        | -                            | 29,149       |
| Other liabilities  | 3,695      | 1,797                     | 20                            | -                            | 5,512        |
| Stockholders' equity   | 364,349    | 500,288                   | 11,669                        | (511,957)                    | 364,349      |
| Total liabilities and<br>stockholders' equity                          | \$ 575,455 | \$ 708,797                | \$ 36,391                     | \$ (550,273)                 | \$ 770,370   |

Edgar Filing: CHEMED CORP - Form 10-Q

| For the three months ended September 30, 2008 | Parent    | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|-----------|------------------------|----------------------------|---------------------------|--------------|
| Continuing Operations                         |           |                        |                            |                           |              |
| Net sales and service revenues                | \$ -      | \$ 282,103             | \$ 6,209                   | \$ -                      | \$ 288,312   |
| Cost of services provided and goods sold      | -         | 199,308                | 3,138                      | -                         | 202,446      |
| Selling, general and administrative expenses  | 5,015     | 39,725                 | (718)                      | -                         | 44,022       |
| Depreciation                                  | 130       | 5,122                  | 189                        | -                         | 5,441        |
| Amortization                                  | 487       | 1,007                  | -                          | -                         | 1,494        |
| Total costs and expenses                      | 5,632     | 245,162                | 2,609                      | -                         | 253,403      |
| Income/ (loss) from operations                | (5,632)   | 36,941                 | 3,600                      | -                         | 34,909       |
| Interest expense                              | (1,480)   | (89)                   | (1)                        | -                         | (1,570)      |
| Other (expense)/income - net                  | 1,151     | (1,138)                | (1,921)                    | -                         | (1,908)      |
| Income/ (loss) before income taxes            | (5,961)   | 35,714                 | 1,678                      | -                         | 31,431       |
| Income tax (provision)/ benefit               | 1,451     | (13,533)               | (1,401)                    | -                         | (13,483)     |
| Equity in net income of subsidiaries          | 22,458    | 581                    | -                          | (23,039)                  | -            |
| Income from continuing operations             | 17,948    | 22,762                 | 277                        | (23,039)                  | 17,948       |
| Net income                                    | \$ 17,948 | \$ 22,762              | \$ 277                     | \$ (23,039)               | \$ 17,948    |

| For the three months ended September 30, 2007 | Parent    | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|-----------|------------------------|----------------------------|---------------------------|--------------|
| Continuing Operations                         |           |                        |                            |                           |              |
| Net sales and service revenues                | \$ -      | \$ 266,382             | \$ 6,121                   | \$ -                      | \$ 272,503   |
| Cost of services provided and goods sold      | -         | 189,854                | 3,028                      | -                         | 192,882      |
| Selling, general and administrative expenses  | 4,155     | 37,755                 | 616                        | -                         | 42,526       |
| Depreciation                                  | 123       | 4,940                  | 157                        | -                         | 5,220        |
| Amortization                                  | 282       | 1,008                  | 2                          | -                         | 1,292        |
| Total costs and expenses                      | 4,560     | 233,557                | 3,803                      | -                         | 241,920      |
| Income/ (loss) from operations                | (4,560)   | 32,825                 | 2,318                      | -                         | 30,583       |
| Interest expense                              | (2,169)   | (120)                  | (226)                      | -                         | (2,515)      |
| Loss on extinguishment of debt                | (83)      | -                      | -                          | -                         | (83)         |
| Other (expense)/income - net                  | 2,838     | (2,258)                | (569)                      | -                         | 11           |
| Income/ (loss) before income taxes            | (3,974)   | 30,447                 | 1,523                      | -                         | 27,996       |
| Income tax (provision)/ benefit               | 1,570     | (11,749)               | (901)                      | -                         | (11,080)     |
| Equity in net income of subsidiaries          | 20,521    | 790                    | -                          | (21,311)                  | -            |
| Income from continuing operations             | 18,117    | 19,488                 | 622                        | (21,311)                  | 16,916       |
| Discontinued Operations                       | -         | 1,201                  | -                          | -                         | 1,201        |
| Net income                                    | \$ 18,117 | \$ 20,689              | \$ 622                     | \$ (21,311)               | \$ 18,117    |

| For the Nine Months Ending September 30, 2008 | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|--------|------------------------|----------------------------|---------------------------|--------------|
| Continuing Operations                         |        |                        |                            |                           |              |
| Net sales and service revenues                | \$ -   | \$ 837,938             | \$ 18,798                  | \$ -                      | \$ 856,736   |
| Cost of services provided and goods sold      | -      | 600,110                | 9,287                      | -                         | 609,397      |
| Selling, general and administrative expenses  | 13,544 | 118,255                | 1,271                      | -                         | 133,070      |
| Depreciation                                  | 372    | 15,355                 | 522                        | -                         | 16,249       |
| Amortization                                  | 1,409  | 3,024                  | -                          | -                         | 4,433        |
| Total costs and expenses                      | 15,325 | 736,744                | 11,080                     | -                         | 763,149      |



Edgar Filing: CHEMED CORP - Form 10-Q

|                                      |           |           |          |             |           |
|--------------------------------------|-----------|-----------|----------|-------------|-----------|
| Income/ (loss) from operations       | (15,325)  | 101,194   | 7,718    | -           | 93,587    |
| Interest expense                     | (4,256)   | (331)     | (2)      | -           | (4,589)   |
| Other (expense)/income - net         | 4,025     | (3,683)   | (2,553)  | -           | (2,211)   |
| Income/ (loss) before income taxes   | (15,556)  | 97,180    | 5,163    | -           | 86,787    |
| Income tax (provision)/ benefit      | 4,811     | (36,492)  | (3,088)  | -           | (34,769)  |
| Equity in net income of subsidiaries | 62,763    | 2,582     | -        | (65,345)    | -         |
| Income from continuing operations    | 52,018    | 63,270    | 2,075    | (65,345)    | 52,018    |
| Net income                           | \$ 52,018 | \$ 63,270 | \$ 2,075 | \$ (65,345) | \$ 52,018 |

| For the Nine Months Ending September 30, 2007 | Parent    | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|---|-----------|---------------------------|-------------------------------|------------------------------|--------------|
| <b>Continuing Operations</b>                  |           |                           |                               |                              |              |
| Net sales and service revenues                | \$ -      | \$ 795,912                | \$ 18,417                     | \$ -                         | \$ 814,329   |
| Cost of services provided and goods sold      | -         | 560,630                   | 9,215                         | -                            | 569,845      |
| Selling, general and administrative expenses  | 14,513    | 119,397                   | 2,776                         | -                            | 136,686      |
| Depreciation                                  | 366       | 14,075                    | 456                           | -                            | 14,897       |
| Amortization                                  | 871       | 3,028                     | 2                             | -                            | 3,901        |
| Other operating income                        | (1,138)   | -                         | -                             | -                            | (1,138)      |
| Total costs and expenses                      | 14,612    | 697,130                   | 12,449                        | -                            | 724,191      |
| Income/ (loss) from operations                | (14,612)  | 98,782                    | 5,968                         | -                            | 90,138       |
| Interest expense                              | (9,065)   | (365)                     | (227)                         | -                            | (9,657)      |
| Loss on extinguishment of debt                | (13,798)  | -                         | -                             | -                            | (13,798)     |
| Other income - net                            | 12,436    | (8,885)                   | (483)                         | -                            | 3,068        |
| Income/ (loss) before income taxes            | (25,039)  | 89,532                    | 5,258                         | -                            | 69,751       |
| Income tax (provision)/ benefit               | 9,439     | (34,182)                  | (2,438)                       | -                            | (27,181)     |
| Equity in net income of subsidiaries- Non GS  | 59,371    | 2,988                     | -                             | (62,359)                     | -            |
| Income from continuing operations             | 43,771    | 58,338                    | 2,820                         | (62,359)                     | 42,570       |
| Discontinued Operations                       | -         | 1,201                     | -                             | -                            | 1,201        |
| Net income                                    | \$ 43,771 | \$ 59,539                 | \$ 2,820                      | \$ (62,359)                  | \$ 43,771    |

Edgar Filing: CHEMED CORP - Form 10-Q

| For the nine months ended September 30, 2008            | Parent     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidated |
|---|------------|---------------------------|-------------------------------|--------------|
| <b>Cash Flow from Operating Activities:</b>             |            |                           |                               |              |
| Net cash (used)/provided by operating activities        | \$ (6,959) | \$ 94,811                 | \$ 1,678                      | \$ 89,530    |
| <b>Cash Flow from Investing Activities:</b>             |            |                           |                               |              |
| Capital expenditures                                    | (429)      | (11,685)                  | (989)                         | (13,103)     |
| Business combinations, net of cash acquired             | -          | (1,578)                   | -                             | (1,578)      |
| Net proceeds from sale of discontinued operations       | 8,980      | -                         | -                             | 8,980        |
| Proceeds from sale of property and equipment            | 10         | 162                       | 28                            | 200          |
| Other sources and uses - net                            | (495)      | 84                        | (10)                          | (421)        |
| Net cash provided/ (used) by investing activities       | 8,066      | (13,017)                  | (971)                         | (5,922)      |
| <b>Cash Flow from Financing Activities:</b>             |            |                           |                               |              |
| Decrease in cash overdrafts payable                     | (629)      | (1,284)                   | -                             | (1,913)      |
| Change in intercompany accounts                         | 79,010     | (79,144)                  | 134                           | -            |
| Dividends paid to shareholders                          | (4,352)    | -                         | -                             | (4,352)      |
| Purchases of treasury stock                             | (69,136)   | -                         | -                             | (69,136)     |
| Proceeds from exercise of stock options                 | 290        | -                         | -                             | 290          |
| Realized excess tax benefit on share based compensation | 1,234      | -                         | -                             | 1,234        |
| Repayment of long-term debt                             | (7,500)    | (95)                      | -                             | (7,595)      |
| Other sources and uses - net                            | (23)       | 221                       | (518)                         | (320)        |
| Net cash used by financing activities                   | (1,106)    | (80,302)                  | (384)                         | (81,792)     |
| Net increase in cash and cash equivalents               | 1          | 1,492                     | 323                           | 1,816        |
| Cash and cash equivalents at beginning of year          | 3,877      | (1,584)                   | 2,695                         | 4,988        |
| Cash and cash equivalents at end of period              | \$ 3,878   | \$ (92)                   | \$ 3,018                      | \$ 6,804     |

| For the nine months ended September 30, 2007            | Parent    | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidated |
|---|-----------|---------------------------|-------------------------------|--------------|
| <b>Cash Flow from Operating Activities:</b>             |           |                           |                               |              |
| Net cash provided by operating activities               | \$ 4,821  | \$ 83,913                 | \$ 1,409                      | \$ 90,143    |
| <b>Cash Flow from Investing Activities:</b>             |           |                           |                               |              |
| Capital expenditures                                    | (175)     | (19,469)                  | (501)                         | (20,145)     |
| Business combinations, net of cash acquired             | -         | (1,079)                   | -                             | (1,079)      |
| Net payments from sale of discontinued operations       | (2,382)   | (3,739)                   | -                             | (6,121)      |
| Proceeds from sale of property and equipment            | 2,964     | 83                        | 25                            | 3,072        |
| Other uses - net  | (680)     | (721)                     | (14)                          | (1,415)      |
| Net cash used by investing activities                   | (273)     | (24,925)                  | (490)                         | (25,688)     |
| <b>Cash Flow from Financing Activities:</b>             |           |                           |                               |              |
| Increase/(decrease) in cash overdrafts payable          | (352)     | 2,906                     | -                             | 2,554        |
| Change in intercompany accounts                         | 66,481    | (63,165)                  | (3,316)                       | -            |
| Dividends (paid to)/received from shareholders          | (4,441)   | 1,446                     | (1,446)                       | (4,441)      |
| Purchases of treasury stock                             | (130,873) | -                         | -                             | (130,873)    |
| Proceeds from exercise of stock options                 | 2,429     | -                         | -                             | 2,429        |
| Realized excess tax benefit on share based compensation | 2,506     | -                         | -                             | 2,506        |
| Purchase of note hedges                                 | (55,093)  | -                         | -                             | (55,093)     |

Edgar Filing: CHEMED CORP - Form 10-Q

|  |           |            |          |           |
|--|-----------|------------|----------|-----------|
| Proceeds from issuance of warrants                   | 27,614    | -          | -        | 27,614    |
| Proceeds from issuance of long-term debt             | 300,000   | -          | -        | 300,000   |
| Debt issuance costs                                  | (6,887)   | -          | -        | (6,887)   |
| Repayment of long-term debt                          | (215,500) | (144)      | -        | (215,644) |
| Other sources and uses - net                         | 27        | (1)        | 810      | 836       |
| Net cash used by financing activities                | (14,089)  | (58,958)   | (3,952)  | (76,999)  |
| Net increase/(decrease) in cash and cash equivalents | (9,541)   | 30         | (3,033)  | (12,544)  |
| Cash and cash equivalents at beginning of period     | 25,258    | (1,314)    | 5,330    | 29,274    |
| Cash and cash equivalents at end of period           | \$ 15,717 | \$ (1,284) | \$ 2,297 | \$ 16,730 |

-14-

---

## 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 team of doctors, nurses, home health aides, social workers, clergy and volunteers, VITAS provides direct medical services to patients, as well as spiritual and emotional counseling to both patients and their families. Roto-Rooter's services are focused on providing plumbing and drain cleaning services to both residential and commercial customers. Through its network of company-owned branches, independent contractors and franchisees, Roto-Rooter offers plumbing and drain cleaning service to over 90% of the U.S. population. The following is a summary of the key operating results for the three and nine months ended September 30, 2008 and 2007 (in thousands except per share amounts):

|  | Three Months Ended    |            | Nine Months Ended     |            |
|--|-----------------------|------------|-----------------------|------------|
|  | September 30,<br>2008 | 2007       | September 30,<br>2008 | 2007       |
| Consolidated service revenues and sales        | \$ 288,312            | \$ 272,503 | \$ 856,736            | \$ 814,329 |
| Consolidated income from continuing operations | \$ 17,948             | \$ 16,916  | \$ 52,018             | \$ 42,570  |
| Diluted EPS from continuing operations         | \$ 0.79               | \$ 0.69    | \$ 2.20               | \$ 1.69    |

For the three months ended September 30, 2008, the increase in consolidated service revenues and sales was driven by a 9% increase at VITAS offset by a 1% decline at Roto-Rooter. The increase at VITAS was primarily the result of a 4% increase in average daily census (ADC) from the third quarter of 2007, the October 1, 2007 Medicare reimbursement rate increase of approximately 3% and a shift in the mix of care provided. Roto-Rooter was driven by a 12% decrease in job count offset by an 11% price and mix shift increase.

For the nine months ended September 30, 2008, the increase in consolidated service revenues and sales was driven by an 8% increase at VITAS offset by a 1% decline at Roto-Rooter. The increase at VITAS was primarily the result of a 4% increase in ADC, the October 1, 2007 Medicare reimbursement rate increase and a slight shift in mix of service provided. Roto-Rooter was driven by a 9% decrease in job count offset by a 8% increase in price and mix shift increase. Consolidated income from continuing operations for 2007 includes a \$13.8 million pretax loss on extinguishment of debt which did not recur for the same time period of 2008. Diluted EPS increased as the result of increased earnings and a reduction of diluted share count due to our stock repurchase program.

## Financial Condition

## Liquidity and Capital Resources

Significant changes in the balance sheet accounts from December 31, 2007 to September 30, 2008 include the following:

- The notes receivable due from Patient Care were collected in full during the first quarter of 2008.
- The increase in treasury stock relates to the repurchase of approximately 1.7 million shares under the 2007 Share Repurchase Program since year end.

Net cash provided by operations decreased \$613,000 due primarily to the non-cash impact of writing-off debt issuance costs and the long-term incentive compensation costs in 2007 offset by the increase in net income. Capital expenditures for the first nine months of 2008 decreased by \$7.0 million compared to the same period in 2007 due mainly to the development of a patient information capture software system in 2007 at VITAS.

We have issued \$27.3 million in standby letters of credit as of September 30, 2008 mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of September 30, 2008, we have approximately \$147.7 million of unused lines of credit available and eligible to be drawn down

under our revolving credit facility, excluding the expansion feature. We believe our liquidity and sources of capital are satisfactory for our capital and operating requirements in the foreseeable future.

**Commitments and Contingencies**

Collectively, the terms of our credit agreements require us to meet various financial covenants, to be tested quarterly. In connection therewith, we are in compliance with all financial and other debt covenants as of September 30, 2008 and anticipate remaining in compliance throughout 2008.

-15-

---

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 (“Santos”). This case alleges failure to pay overtime and failure to provide meal and rest periods to a purported class of California admissions nurses, chaplains and sales representatives. The case seeks payment of penalties, interest and Plaintiffs’ attorney fees. VITAS contests these allegations. The lawsuit is in its early stage and we are unable to estimate our potential liability, if any, with respect to these allegations.

In April 2007, our Roto-Rooter subsidiary was named in a class action lawsuit filed in San Mateo Superior Court by Stanley Ita (“Ita”) alleging class-wide wage and hour violations at one California branch. This suit alleges failure to provide meal and break periods, credit for work time beginning from the first call to dispatch rather than arrival at first assignment and improper calculations of work time and overtime. The case sought payment of penalties, interest and Plaintiffs’ attorney fees. After the suit was filed, we offered a settlement to certain members of the class and paid approximately \$200,000. In January 2008, we agreed to a tentative settlement with the remaining members of the class for approximately \$1.8 million. The tentative settlement was preliminarily approved by the court in May 2008. Final approval and payment of the settlement was made in August 2008. The settlement was accrued in the fourth quarter of 2007.

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 are appealing this dismissal. Pretax expenses related to complying with OIG requests were immaterial for the three and nine months ended September 30, 2008 and 2007. The government continues to investigate the complaint’s allegations. We are unable to predict the outcome of this matter or the impact, if any, that the investigation may have on our business, results of operations, liquidity or capital resources. Regardless of outcome, responding to the subpoenas and defending the litigation can adversely affect us through defense costs, diversion of our time and related publicity.

#### Results of Operations

##### Three months ended September 30, 2008 versus 2007 - Consolidated Results

Our service revenues and sales for the third quarter of 2008 increased 5.8% versus revenues for the third quarter of 2007. Of this increase, \$16.5 million was attributable to VITAS offset by a \$673,000 decrease attributable to Roto-Rooter, as follows (dollars in thousands):

|                   | Increase/(Decrease) |         |         |
|-------------------|---------------------|---------|---------|
|                   | Amount              |         | Percent |
| VITAS             |                     |         |         |
| Routine homecare  | \$                  | 12,326  | 9.0%    |
| Continuous care   |                     | 2,148   | 7.4%    |
| General inpatient |                     | 1,294   | 5.7%    |
| Medicare cap      |                     | 714     | -       |
| Roto-Rooter       |                     |         |         |
| Plumbing          |                     | 1,054   | 3.0%    |
| Drain cleaning    |                     | (1,381) | -3.8%   |
| Other             |                     | (346)   | -2.8%   |
| Total             | \$                  | 15,809  | 5.8%    |

The increase in VITAS' revenues for the third quarter of 2008 versus the third quarter of 2007 is attributable to an increase in ADC of 4.7% for routine homecare and a 1.6% increase in continuous care offset by a 0.5% decline in general inpatient care. ADC is a key measure we use to monitor volume growth in our hospice business. Changes in total program admissions and average length of stay for our patients are the main drivers of changes in ADC. The remainder of the revenue increase is due primarily to the annual increase in Medicare reimbursement rates in the fourth quarter of 2007. In excess of 90% of VITAS' revenues for the period were from Medicare and Medicaid. We recorded a \$714,000 reduction in revenue in September 2007 related to Medicare cap billing limitations for the 2006 measurement period for 3 programs. The adjustment for the 2006 measurement period was due to the normal allocation of transferred patients performed by the Federal government's fiscal intermediary. We did not record any Medicare cap billing limitations related to the 2007 or 2008 measurement period.

The increase in the plumbing revenues for the third quarter of 2008 versus 2007 comprises a 10.1% decrease in the number of jobs performed more than offset by a 14.8% increase caused by increased prices and job mix. During the third quarter of 2008, we experienced a significant increase in excavation jobs for our plumbing business which generally have higher revenue per job than other plumbing jobs. The decrease in drain cleaning revenues for the third quarter of 2008 versus 2007 comprised a 12.3% decline in the number of jobs offset by a 9.4% increase caused by increased prices and job mix.

The consolidated gross margin was 29.8% in the third quarter of 2008 as compared with 29.2% in the third quarter of 2007. On a segment basis, VITAS' gross margin was 23.6% in the third quarter of 2008 and 21.4% in the third quarter of 2007. The increase in VITAS' gross margin in 2008 is attributable to a reduction in the Medicare cap expense in 2007 of \$714,000, as well as the continued focus on more efficient scheduling of direct labor. The Roto-Rooter segment's gross margin was 45.1% in the third quarter of 2008 and 46.9% in the third quarter of 2007. The decrease in Roto-Rooter's gross margin in 2008 is primarily attributable to an increase in large medical claims affecting our health insurance costs.

Selling, general and administrative expenses ("SG&A") for the third quarter of 2008 were \$44.0 million, an increase of \$1.5 million (3.5%) versus the third quarter of 2007. The increase is due mainly to higher variable selling costs and increased stock-based compensation costs related to the May 2008 stock option grant.

Interest expense, substantially all of which is incurred at Corporate, declined from \$2.5 million in the third quarter of 2007 to \$1.6 million in the third quarter of 2008. This decline is due to debt repayments made during the most recent twelve months and a decrease in the average interest rate on our floating rate debt.

Other (expense)/income - net decreased from income of \$11,000 in the third quarter of 2007 to a loss of \$1.9 million in the third quarter of 2008. The decrease is attributable to market losses from investments held in our deferred compensation benefit trusts.

Our effective income tax rate was 42.9% in the third quarter of 2008 compared to 39.6% in the third quarter of 2007. The increase in the effective income tax rate is due to the impact of non-deductible market losses on investments in our deferred compensation benefit trusts.

During the third quarter of 2007, we recorded a \$1.2 million aftertax adjustment related to the Medicare cap liability for our discontinued Phoenix program. No such adjustment was required during 2008. Income from continuing operations and net income for both periods included the following aftertax special items/adjustments that reduced aftertax earnings (in thousands):

|   | Three Months Ended<br>September 30, |          |
|---|-------------------------------------|----------|
|   | 2008                                | 2007     |
| Stock-option expense  | \$ 1,334                            | \$ 1,011 |
| Income tax impact of non-deductible losses on investments in our deferred compensation trusts | 1,237                               | 123      |
| Legal expenses of OIG Investigation   | 1                                   | 30       |
| Loss on extinguishment of debt  | -                                   | 52       |
|   | \$ 2,572                            | \$ 1,216 |

Three-months ended September 30, 2008 versus 2007-Segment Results

The change in aftertax earnings for the third quarter of 2008 versus the third quarter of 2007 is due to (in thousands):

Net Income



Edgar Filing: CHEMED CORP - Form 10-Q

|                         | Increase/(Decrease)<br>Amount | Percent |
|-------------------------|-------------------------------|---------|
| VITAS                   | \$ 3,640                      | 26.1%   |
| Roto-Rooter             | (1,279)                       | -13.8%  |
| Corporate               | (1,329)                       | -21.3%  |
| Discontinued operations | (1,201)                       | 100.0%  |
|                         | \$ (169)                      | -0.9%   |

-17-

---

## Nine-months ended September 30, 2008 versus 2007-Consolidated Results

Our service revenues and sales for the first nine months of 2008 increased 5.2% versus revenues for the first nine months of 2007. Of this increase, \$44.4 million was attributable to VITAS offset by a \$2.0 million decline attributable to Roto-Rooter, as follows (in thousands):

|                   | Increase/(Decrease) |         |
|-------------------|---------------------|---------|
|                   | Amount              | Percent |
| VITAS             |                     |         |
| Routine homecare  | \$ 32,327           | 8.0%    |
| Continuous care   | 6,367               | 7.4%    |
| General inpatient | 5,429               | 7.9%    |
| Medicare cap      | 242                 | -100%   |
| Roto-Rooter       |                     |         |
| Plumbing          | 1,332               | 1.3%    |
| Drain cleaning    | (2,473)             | -2.2%   |
| Other             | (817)               | -2.2%   |
| Total             | \$ 42,407           | 5.2%    |

The increase in VITAS' revenues for the first nine months of 2008 versus the first nine months of 2007 is attributable to an increase in ADC of 4.0% for routine homecare, 2.9% for general inpatient and 1.8% for continuous care. ADC is a key measure we use to monitor volume growth in our hospice business. Changes in total program admissions and average length of stay for our patients are the main drivers of changes in ADC. The remainder of the revenue increase is due primarily to the annual increase in Medicare reimbursement rates in the fourth quarter of 2007. We recorded a \$242,000 reduction in revenue during the first nine months of 2007 related to Medicare cap billing limitations from prior years.

The increase in the plumbing revenues for the first nine months of 2008 versus 2007 comprises a 7.5% decrease in the number of jobs performed and a 9.4% increase due to increased price and job mix. During the first nine months of 2008, we experienced a significant increase in excavation jobs for our plumbing business which generally have higher revenue per job than other plumbing jobs. The decrease in drain cleaning revenues for the first nine months of 2008 versus 2007 comprised a 10.3% decline in the number of jobs offset by an 8.8% increase due to increased price and job mix.

The consolidated gross margin was 28.9% in the first nine months of 2008 as compared with 30.0% in the first nine months of 2007. On a segment basis, VITAS' gross margin was 21.8% in the first nine months of 2008 and 22.1% in the first nine months of 2007. The Roto-Rooter segment's gross margin was 45.6% in the first nine months of 2008 as compared to 47.3% in the first nine months of 2007. The decrease in Roto-Rooter's gross margin in 2008 is primarily attributable to an increase in large medical claims affecting our health insurance costs.

SG&A for the first nine months of 2008 was \$133.1 million, a decrease of \$3.6 million (2.6%) versus the first nine months of 2007. The decrease is largely due to 2007 expenses of \$7.1 million related to the LTIP offset by higher expenses due to increased variable selling expenses as well as higher stock option expense. There have been no LTIP costs during the first nine months of 2008.

Interest expense, substantially all of which is incurred at Corporate, declined from \$9.7 million in the first nine months of 2007 to \$4.6 million in the first nine months of 2008. This decline is due to the reduction in debt outstanding and our refinancing transactions in May 2007. The loss on extinguishment of debt is also the result of the May 2007 refinancing transactions.

Other (expense)/income - net decreased from income of \$3.1 million in the first nine months of 2007 to a loss of \$2.2 million in the first nine months of 2008. The decrease is attributable to market losses from investments held in our deferred compensation benefit trusts.

Our effective income tax rate was 40.1% for the first nine months of 2008 as compared to 39.0% for the same period of 2007. The increase in the effective income tax rate is due to the impact of non-deductible market losses on investments in our deferred compensation benefit trusts.

-18-

---

Edgar Filing: CHEMED CORP - Form 10-Q

During the first nine months of 2007, we recorded a \$1.2 million aftertax adjustment related to the Medicare cap liability for our discontinued Phoenix program. No such adjustment was required during 2008. Income from continuing operations and net income for both periods included the following aftertax special items/adjustments that (increased)/reduced aftertax earnings (in thousands):

|   | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2008                               | 2007      |
| Stock-option expense  | \$ 3,228                           | \$ 1,952  |
| Income tax impact of non-deductible losses on investments in our deferred compensation trusts | 1,237                              | 123       |
| Unreserved prior year insurance claim   | 358                                | -         |
| Legal expenses of OIG investigation   | 27                                 | 117       |
| Tax adjustments from prior year returns   | (322)                              | -         |
| Loss on extinguishment of debt  | -                                  | 8,778     |
| Long-term incentive compensation award  | -                                  | 4,427     |
| Gain on sale of Florida call center   | -                                  | (724)     |
| Other   | -                                  | (296)     |
|   | \$ 4,528                           | \$ 14,377 |

Nine-months ended September 30, 2008 versus 2007-Segment Results

The change in aftertax earnings for the first nine months of 2008 versus the first nine months of 2007 is due to (in thousands):

|                         | Net Income<br>Increase/(Decrease) |         |
|-------------------------|-----------------------------------|---------|
|                         | Amount                            | Percent |
| VITAS                   | \$ 2,118                          | 4.9%    |
| Roto-Rooter             | (3,788)                           | -13.0%  |
| Corporate               | 11,118                            | 37.4%   |
| Discontinued operations | (1,201)                           | 100.0%  |
|                         | \$ 8,247                          | 18.8%   |

The following chart updates historical unaudited financial and operating data of VITAS (dollars in thousands, except dollars per patient day):

CHEMED CORPORATION AND SUBSIDIARY COMPANIES  
 OPERATING STATISTICS FOR VITAS SEGMENT  
 FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007  
 (unaudited)

| OPERATING STATISTICS   | Three Months Ended    |            | Nine Months Ended     |            |
|--|-----------------------|------------|-----------------------|------------|
|  | September 30,<br>2008 | 2007       | September 30,<br>2008 | 2007       |
| Net revenue  |                       |            |                       |            |
| Homecare   | \$ 149,732            | \$ 137,406 | \$ 436,075            | \$ 403,748 |
| Inpatient  | 24,155                | 22,861     | 74,497                | 69,068     |
| Continuous care  | 31,069                | 28,921     | 92,017                | 85,650     |
| Total before Medicare cap allowance                                | 204,956               | 189,188    | 602,589               | 558,466    |
| Medicare cap allowance   | -                     | (714)      | -                     | (242)      |
| Total  | \$ 204,956            | \$ 188,474 | \$ 602,589            | \$ 558,224 |
| Net revenue as a percent of total<br>before Medicare cap allowance |                       |            |                       |            |
| Homecare   | 73.0%                 | 72.6%      | 72.4%                 | 72.3%      |
| Inpatient  | 11.8                  | 12.1       | 12.3                  | 12.4       |
| Continuous care  | 15.2                  | 15.3       | 15.3                  | 15.3       |
| Total before Medicare cap allowance                                | 100.0                 | 100.0      | 100.0                 | 100.0      |
| Medicare cap allowance   | -                     | (0.4)      | -                     | -          |
| Total  | 100.0%                | 99.6%      | 100.0%                | 100.0%     |
| Average daily census ("ADC") (days)                                |                       |            |                       |            |
| Homecare   | 7,534                 | 7,039      | 7,346                 | 6,914      |
| Nursing home   | 3,570                 | 3,567      | 3,562                 | 3,572      |
| Routine homecare   | 11,104                | 10,606     | 10,908                | 10,486     |
| Inpatient  | 410                   | 412        | 429                   | 417        |
| Continuous care  | 519                   | 511        | 521                   | 512        |
| Total  | 12,033                | 11,529     | 11,858                | 11,415     |
| Total Admissions   | 13,317                | 13,436     | 42,485                | 41,204     |
| Total Discharges   | 13,279                | 13,403     | 41,992                | 40,823     |
| Average length of stay (days)                                      | 74.1                  | 76.7       | 72.9                  | 76.7       |
| Median length of stay (days)                                       | 15.0                  | 14.0       | 14.0                  | 13.0       |
| ADC by major diagnosis   |                       |            |                       |            |
| Neurological   | 32.5%                 | 32.8%      | 32.5%                 | 33.1%      |
| Cancer   | 19.9                  | 20.3       | 19.9                  | 19.9       |
| Cardio   | 12.8                  | 14.2       | 12.9                  | 14.5       |
| Respiratory  | 6.5                   | 6.8        | 6.7                   | 6.9        |
| Other  | 28.3                  | 25.9       | 28.0                  | 25.6       |
| Total  | 100.0%                | 100.0%     | 100.0%                | 100.0%     |
| Admissions by major diagnosis                                      |                       |            |                       |            |
| Neurological   | 18.2%                 | 18.2%      | 18.4%                 | 18.5%      |
| Cancer   | 37.6                  | 37.5       | 35.6                  | 35.9       |
| Cardio   | 11.3                  | 12.1       | 11.8                  | 12.8       |
| Respiratory  | 7.0                   | 7.1        | 7.8                   | 7.6        |
| Other  | 25.9                  | 25.1       | 26.4                  | 25.2       |
| Total  | 100.0%                | 100.0%     | 100.0%                | 100.0%     |

Edgar Filing: CHEMED CORP - Form 10-Q

|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Direct patient care margins                              |           |           |           |           |
| Routine homecare   | 52.4%     | 51.0%     | 51.2%     | 50.9%     |
| Inpatient  | 16.6      | 15.9      | 17.9      | 18.3      |
| Continuous care  | 18.0      | 16.9      | 17.4      | 18.2      |
| Homecare margin drivers (dollars per patient day)        |           |           |           |           |
| Labor costs  | \$ 48.59  | \$ 48.86  | \$ 50.16  | \$ 48.98  |
| Drug costs   | 7.85      | 7.88      | 7.70      | 7.95      |
| Home medical equipment                                   | 6.28      | 5.65      | 6.22      | 5.73      |
| Medical supplies   | 2.17      | 2.22      | 2.35      | 2.16      |
| Inpatient margin drivers (dollars per patient day)       |           |           |           |           |
| Labor costs  | \$ 262.98 | \$ 274.64 | \$ 263.71 | \$ 263.11 |
| Continuous care margin drivers (dollars per patient day) |           |           |           |           |
| Labor costs  | \$ 512.04 | \$ 490.94 | \$ 511.81 | \$ 479.83 |
| Bad debt expense as a percent of revenues                | 1.0%      | 0.9%      | 1.0%      | 0.9%      |
| Accounts receivable --<br>days of revenue outstanding    | 46.9      | 39.6      | N.A.      | N.A.      |

---

VITAS has 6 large (greater than 450 ADC), 17 medium (greater than 200 but less than 450 ADC) and 23 small (less than 200 ADC) hospice programs.

There are three programs at September 30, 2008 with Medicare cap cushion of less than 10% for the measurements period.

Direct patient care margins exclude indirect patient care and administrative costs, as well as Medicare

Cap billing  
limitation.

-20-

---

#### Recent Accounting Statements

In June 2008, the EITF reached a consensus on EITF Issue No. 07-5, “Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity’s Own Stock”. The consensus provides additional guidance when determining whether an option or warrant on an entity’s own shares is eligible for the equity classification provided for in EITF 00-19. The consensus is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the impact of this consensus on our outstanding options and warrants issued in connection with our 2007 convertible debt transaction.

In May 2008, the FASB issued Staff Position No. APB 14-1, “Accounting for Convertible Debt Instruments that may be Settled in Cash Upon Conversion (Including Partial Cash Settlement).” This new guidance requires all convertible debentures classified as Instruments B or C under EITF 90-19 to separately account for the debt and equity pieces of the instrument. At inception of the convertible instrument, cash flows related to the convertible instrument are to be discounted using a market rate of interest. This will create a discount at inception to be recorded in equity. The debt portion is to be accreted to its face value, through interest expense, over the life of the instrument using the effective interest method. This will result in higher interest expense over the life of the instrument and an increase in equity at the inception of the instrument. Debt issuance costs are also to be allocated between the debt and equity components using a rationale method. Finally, the FSP requires that the Company value any embedded features of the instrument, other than the conversion option, as a part of the liability. The new standard is effective for all fiscal years (and interim periods) beginning after December 15, 2008. As such, we will adopt the new standard on January 1, 2009. The FSP is to be applied retrospectively. Upon adoption, our preliminary estimate is that our \$200 million, 1.875% Convertible Debentures issued in May 2007 will have a discount of between \$50 million and \$60 million.

In May 2008, the FASB issued Statement of Financial Accounting Standard No. 162 “The Hierarchy of Generally Accepted Accounting Principles” (“SFAS 162”). The purpose of this standard is to provide a consistent framework for determining what accounting principles should be used when preparing U.S. GAAP financial statements. SFAS 162 categorizes accounting pronouncements in a descending order of authority. In the instance of potentially conflicting accounting principles, the standard in the highest category must be used. This statement will be effective 60 days after the SEC approves the Public Company Accounting and Oversight Board’s related amendments. We believe that SFAS 162 will have no impact on our existing accounting methods.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 141(R) “Business Combinations (revised 2007)” (“SFAS 141(R)”), which changes certain aspects of the accounting for business combinations. This Statement retains the fundamental requirements in Statement No. 141 that the purchase method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141(R) modifies existing accounting guidance in the areas of deal and restructuring costs, acquired contingencies, contingent consideration, in-process research and development, accounting for subsequent tax adjustments and assessing the valuation date. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. There will be no impact on our financial statements as a result of the adoption of SFAS 141(R); however our accounting for all business combinations after adoption will comply with the new standard.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 160 “Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51” (“SFAS 160”), which requires ownership interests in subsidiaries held by others to be clearly identified, labeled and presented in the consolidated balance sheet within equity but separate from the parent company’s equity. SFAS 160 also affects the accounting requirements when the parent company either purchases a higher ownership interest or deconsolidates the equity investment. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. We currently do not have non-controlling interests in our consolidated financial statements.



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

In addition to historical information, this report contains forward-looking statements and performance trends that are based upon assumptions subject to certain known and unknown risks, uncertainties, contingencies and other factors. 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. 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.

### 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 September 30, 2008, we had \$17.0 million of variable rate debt outstanding. A 1% change in the interest rate on our variable interest rate borrowings would have a \$170,000 full-year impact on our interest expense. At September 30, 2008, the fair value of our Senior Convertible Notes approximates \$153.3 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 2(c). Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table shows the activity related to our share repurchase programs for the nine months ended September 30, 2008:

|  | Total<br>Number of<br>Shares<br>Repurchased | Weighted Average<br>Price Paid Per<br>Share | Cumulative<br>Shares<br>Repurchased<br>Under<br>the Program | Dollar<br>Amount<br>Remaining<br>Under<br>The Program |
|--|---|---|---|---|
| April 2007 Program                     |   |   |   |   |
| January 1 through January 31, 2008     | -   | \$ -  | 1,293,250   | \$ 65,004,906   |
| February 1 through February 29, 2008   | 300,000                                     | \$ 49.19                                    | 1,593,250   | \$ 50,247,480   |
| March 1 through March 31, 2008         | -   | \$ -  | 1,593,250   | \$ 50,247,480   |
| First Quarter - April 2007 Program     | 300,000                                     | \$ 49.19                                    |   |   |
| April 1 through April 30, 2008         | -   | \$ -  | 1,593,250   | \$ 50,247,480   |
| May 1 through May 31, 2008             | 382,629                                     | \$ 34.66                                    | 1,975,879   | \$ 93,047,996   |
| June 1 through June 30, 2008           | 447,068                                     | \$ 36.15                                    | 2,422,947   | \$ 76,887,912   |
| Second Quarter - April 2007 Program    | 829,697                                     | \$ 35.46                                    |   |   |
| July 1 through July 31, 2008           | 260,000                                     | \$ 36.75                                    | 2,682,947   | \$ 67,331,650   |
| August 1 through August 30, 2008       | 300,000                                     | \$ 44.64                                    | 2,982,947   | \$ 53,940,328   |
| September 1 through September 30, 2008 | -   | \$ -  | 2,982,947   | \$ 53,940,328   |
| Third Quarter - April 2007 Program     | 560,000                                     | \$ 40.98                                    |   |   |

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

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

Item 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.     |
| 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.        |

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: October 23, 2008 By: Kevin J. McNamara  
Kevin J. McNamara  
(President and Chief Executive Officer)

Dated: October 23, 2008 By: David P. Williams  
David P. Williams  
(Executive Vice President and Chief Financial Officer)

Dated: October 23, 2008 By: Arthur V. Tucker, Jr.  
Arthur V. Tucker, Jr.  
(Vice President and Controller)