

CHEMED CORP
Form 10-Q
April 30, 2010

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 March 31, 2010

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

Commission File Number: 1-8351

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

Delaware
(State or other jurisdiction of incorporation
or organization)

31-0791746
(IRS Employer Identification No.)

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

45202
(Zip code)

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

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

Yes No

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

Yes No

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

| | | | | | | | |
|----------------------------|-------------------------------------|----------------------|--------------------------|--------------------------|--------------------------|------------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> | Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
|----------------------------|-------------------------------------|----------------------|--------------------------|--------------------------|--------------------------|------------------------------|--------------------------|

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

Yes No

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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 | 22,834,890 Shares | March 31, 2010 |

CHEMED CORPORATION AND
SUBSIDIARY COMPANIES

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

| | March 31, 2010 | December 31, 2009 |
|---|-------------------|-------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 112,119 | \$ 112,416 |
| Accounts receivable less allowances of \$13,449 (2009 - \$12,595) | 87,412 | 53,461 |
| Inventories | 7,609 | 7,543 |
| Current deferred income taxes | 15,008 | 13,701 |
| Prepaid expenses | 9,886 | 11,137 |
| Total current assets | 232,034 | 198,258 |
| Investments of deferred compensation plans | 25,925 | 24,158 |
| Properties and equipment, at cost, less accumulated depreciation of \$118,727 (2009 - \$115,181) | 75,189 | 75,358 |
| Identifiable intangible assets less accumulated amortization of \$25,971 (2009 - \$25,349) | 57,239 | 57,920 |
| Goodwill | 450,149 | 450,042 |
| Other assets | 13,692 | 13,734 |
| Total Assets | \$854,228 | \$819,470 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$49,844 | \$52,071 |
| Income taxes | 12,150 | 63 |
| Accrued insurance | 34,478 | 35,161 |
| Accrued compensation | 37,613 | 34,662 |
| Other current liabilities | 12,439 | 14,127 |
| Total current liabilities | 146,524 | 136,084 |
| Deferred income taxes | 24,969 | 25,924 |
| Long-term debt | 153,853 | 152,127 |
| Deferred compensation liabilities | 25,522 | 23,637 |
| Other liabilities | 5,374 | 4,536 |
| Total Liabilities | 356,242 | 342,308 |
| STOCKHOLDERS' EQUITY | | |
| Capital stock - authorized 80,000,000 shares \$1 par; issued 30,087,481 shares (2009 - 29,890,628 shares) | 30,087 | 29,891 |
| Paid-in capital | 343,967 | 335,890 |
| Retained earnings | 419,985 | 403,366 |
| Treasury stock - 7,355,078 shares (2009 - 7,275,070 shares), at cost | (298,031) | (293,941) |
| Deferred compensation payable in Company stock | 1,978 | 1,956 |
| Total Stockholders' Equity | 497,986 | 477,162 |
| Total Liabilities and Stockholders' Equity | \$854,228 | \$819,470 |

See accompanying notes to unaudited financial statements.

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

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2010 | 2009 |
| Service revenues and sales | \$308,813 | 294,938 |
| Cost of services provided and goods sold (excluding depreciation) | 219,137 | 207,013 |
| Selling, general and administrative expenses | 48,538 | 45,793 |
| Depreciation | 5,469 | 5,325 |
| Amortization | 1,224 | 1,536 |
| Other operating expense | - | 545 |
| Total costs and expenses | 274,368 | 260,212 |
| Income from operations | 34,445 | 34,726 |
| Interest expense | (2,952) | (2,844) |
| Other income/(expense)--net | 186 | (276) |
| Income before income taxes | 31,679 | 31,606 |
| Income taxes | (12,321) | (12,267) |
| Net income | \$19,358 | \$19,339 |
| | | |
| Earnings Per Share | | |
| Net income | \$0.86 | \$0.86 |
| Average number of shares outstanding | 22,593 | 22,394 |
| | | |
| Diluted Earnings Per Share | | |
| Net income | \$0.84 | \$0.85 |
| Average number of shares outstanding | 23,021 | 22,647 |
| | | |
| Cash Dividends Per Share | \$0.12 | \$0.06 |

See accompanying notes to unaudited financial statements.

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

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------|
| | 2010 | 2009 |
| Cash Flows from Operating Activities | | |
| Net income | \$19,358 | \$19,339 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 6,693 | 6,861 |
| Provision for uncollectible accounts receivable | 2,472 | 3,071 |
| Stock option expense | 2,051 | 2,042 |
| Provision for deferred income taxes | (2,282) | (1,529) |
| Amortization of discount on convertible notes | 1,726 | 1,612 |
| Changes in operating assets and liabilities, excluding amounts acquired in business combinations: | | |
| Increase in accounts receivable | (36,445) | (12,399) |
| Increase in inventories | (66) | (514) |
| Decrease in prepaid expenses | 502 | 1,002 |
| Decrease in accounts payable and other current liabilities | (381) | (7,900) |
| Increase in income taxes | 13,955 | 13,056 |
| Increase in other assets | (1,672) | (203) |
| Increase in other liabilities | 2,724 | 486 |
| Excess tax benefit on share-based compensation | (1,135) | (145) |
| Other sources | 151 | 322 |
| Net cash provided by operating activities | 7,651 | 25,101 |
| Cash Flows from Investing Activities | | |
| Capital expenditures | (5,424) | (3,376) |
| Business combinations, net of cash acquired | - | (1,944) |
| Proceeds from sales of property and equipment | 27 | 1,360 |
| Other uses | (157) | (152) |
| Net cash used by investing activities | (5,554) | (4,112) |
| Cash Flows from Financing Activities | | |
| Purchases of treasury stock | (2,516) | (231) |
| Proceeds from issuance of capital stock | 2,672 | 68 |
| Repayment of long-term debt | - | (10,799) |
| Dividends paid | (2,739) | (1,355) |
| Decrease in cash overdrafts payable | (1,216) | (342) |
| Excess tax benefit on share-based compensation | 1,135 | 145 |
| Other sources/(uses) | 270 | (244) |
| Net cash used by financing activities | (2,394) | (12,758) |
| (Decrease)/Increase in Cash and Cash Equivalents | (297) | 8,231 |
| Cash and cash equivalents at beginning of year | 112,416 | 3,628 |
| Cash and cash equivalents at end of period | \$112,119 | \$11,859 |

See accompanying notes to unaudited financial statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
Notes to Unaudited Financial Statements

1. Basis of Presentation

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

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

2. Revenue Recognition

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

As of March 31, 2010, VITAS has approximately \$9.1 million in unbilled revenue included in accounts receivable (December 31, 2009 - \$9.9 million). The unbilled revenue at VITAS relates to hospice programs currently undergoing focused medical reviews ("FMR"). During FMR, surveyors working on behalf of the U.S. Federal government review certain patient files for compliance with Medicare regulations. During the time the patient file is under review, we are unable to bill for care provided to those patients. We make appropriate provisions to reduce our accounts receivable balance for potential denials of patient service revenue due to FMR activity.

We actively monitor each of our hospice programs, by provider number, as to their specific admission, discharge rate and median length of stay data in an attempt to determine whether they are likely to exceed the annual per-beneficiary Medicare cap ("Medicare cap"). Should we determine that revenues for a program are likely to exceed the Medicare cap based on projected trends, we attempt to institute corrective action to influence the patient mix or to increase patient admissions. However, should we project our corrective action will not prevent that program from exceeding its Medicare cap, we estimate the amount of revenue recognized during the period that will require repayment to the Federal government under the Medicare cap and record the amount as a reduction to patient revenue. The Medicare cap measurement period is from September 29 through September 28 of the following year for admissions and from November 1 through October 31 of the following year for revenue. During the three-month period ended March 31, 2010, we reversed \$1.8 million of Medicare cap liability recorded during the fourth quarter of 2009 for two programs' projected liability for the 2010 measurement period. This reversal was offset by a \$35,000 pretax charge related to one program's projected liability for the 2010 measurement period. During the period ended March 31, 2009 we recorded \$270,000 in Medicare cap liability for one program's projected liability for the 2009 measurement period. This amount was subsequently reversed due to improved admission trends during the second quarter of 2009.

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

announced a 25% reduction in the BNAF for its fiscal 2009 (October 2008 through September 2009) pursuant to a three year phase-out of the BNAF. The February 2009 American Recovery and Reinvestment Act mandated a one year delay in the BNAF phase-out. In August 2009, the Centers for Medicare and Medicaid Services (CMS) revised the phase-out schedule of the BNAF. CMS reduced the price increase in hospice reimbursement by 10% of the BNAF effective October 1, 2009. The remaining 90% of the BNAF will be phased out over the next six years by revising the October 1 reimbursement adjustment by 15% of the original BNAF inflation factor. Based upon this revised schedule, 100% of the BNAF will be eliminated on October 1, 2015. As a result, included in the three months ended March 31, 2009 results, is \$1.95 million of revenue for the retroactive price increase related to services provided by VITAS in the fourth quarter of 2008.

3. Segments

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

| | Three months ended | |
|----------------------------|--------------------|------------|
| | March 31, | |
| | 2010 | 2009 |
| Service Revenues and Sales | | |
| VITAS | \$ 222,940 | \$ 208,417 |
| Roto-Rooter | 85,873 | 86,521 |
| Total | \$ 308,813 | \$ 294,938 |
| After-tax Earnings | | |
| VITAS | \$ 18,438 | \$ 17,170 |
| Roto-Rooter | 7,813 | 8,229 |
| Total | 26,251 | 25,399 |
| Corporate | (6,893) | (6,060) |
| Net income | \$ 19,358 | \$ 19,339 |

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

4. Earnings per Share

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

| For the Three Months Ended | Net Income | | Earnings per Share |
|----------------------------|------------|--------|--------------------|
| | March 31, | Income | |
| 2010 | | | |
| Earnings | \$ 19,358 | 22,593 | \$ 0.86 |
| Dilutive stock options | - | 346 | |
| Nonvested stock awards | - | 82 | |
| Diluted earnings | \$ 19,358 | 23,021 | \$ 0.84 |
| 2009 | | | |
| Earnings | \$ 19,339 | 22,394 | \$ 0.86 |
| Dilutive stock options | - | 216 | |
| Nonvested stock awards | - | 37 | |
| Diluted earnings | \$ 19,339 | 22,647 | \$ 0.85 |

For the three-month period ended March 31, 2010, 1.3 million stock options were excluded from the computation of diluted earnings per share as their exercise prices were greater than the average market price for most of the period. For the three-month period ended March 31, 2009, 1.7 million stock options were excluded from the computation of diluted earnings per share.

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

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

| Share Price | Shares Underlying 1.875% | | Total Treasury Method | Shares Due to the Company | Incremental Shares Issued/Received by the Company upon Conversion (b) |
|-------------|--------------------------|----------------|------------------------|---------------------------|---|
| | Convertible Notes | Warrant Shares | Incremental Shares (a) | under Notes Hedges | |
| \$ 80.73 | 8,988 | - | 8,988 | (9,615) | (627) |
| \$ 90.73 | 263,947 | - | 263,947 | (282,363) | (18,416) |
| \$ 100.73 | 468,284 | - | 468,284 | (500,956) | (32,672) |
| \$ 110.73 | 635,713 | 118,682 | 754,395 | (680,067) | 74,328 |
| \$ 120.73 | 775,406 | 314,621 | 1,090,027 | (829,507) | 260,520 |
| \$ 130.73 | 893,728 | 480,584 | 1,374,312 | (956,084) | 418,228 |

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. Long-Term Debt

We are in compliance with all debt covenants as of March 31, 2010. We have issued \$28.0 million in standby letters of credit as of March 31, 2010 for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of March 31, 2010, we have approximately \$147.0 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the expansion feature.

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

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

| | March 31, 2010 | December 31, 2009 |
|--|----------------|-------------------|
| Principal amount of convertible debentures | \$ 186,956 | \$ 186,956 |
| Unamortized debt discount | (33,103) | (34,829) |
| Carrying amount of convertible debentures | \$ 153,853 | \$ 152,127 |
| Additional paid in capital (net of tax) | \$ 31,310 | \$ 31,310 |

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

| | Three Months Ended | |
|--|--------------------|----------|
| | March 31, | |
| | 2010 | 2009 |
| Cash interest expense | \$ 1,070 | \$ 1,078 |
| Non-cash amortization of debt discount | 1,726 | 1,612 |
| Amortization of debt costs | 156 | 154 |
| Total interest expense | \$ 2,952 | \$ 2,844 |

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

6. Other Operating Expenses

For the three-month period ended March 31, 2010, there were no other operating expenses recorded. For the three-month period ended March 31, 2009, we recorded pretax expenses of \$545,000 related to the costs of a contested proxy solicitation.

7. Other Income/ (Expense) -- Net

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

| | Three Months Ended | |
|---|--------------------|-------------|
| | March 31, | |
| | 2010 | 2009 |
| Market value gains/(losses) on assets held in deferred compensation trust | \$ 188 | \$ (1,614) |
| Gain on settlement of company-owned life insurance | - | 1,211 |
| (Loss)/gain on disposal of property and equipment | (94) | 24 |
| Interest income | 75 | 82 |
| Other - net | 17 | 21 |
| Total other income/(expense) | \$ 186 | \$ (276) |

8. Stock-Based Compensation Plans

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

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

9. Independent Contractor Operations

The Roto-Rooter segment sublicenses with sixty-two independent contractors to operate certain plumbing repair and drain cleaning businesses in lesser-populated areas of the United States and Canada. We had notes receivable from our independent contractors as of March 31, 2010 totaling \$1.2 million (December 31, 2009 -\$1.3 million). In most

cases these loans are fully or partially secured by equipment owned by the contractor. The interest rates on the loans range from zero to 8% per annum and the remaining terms of the loans range from two months to 5 years at March 31, 2010. During the three months ended March 31, 2010, we recorded revenues of \$5.7 million (2009 - \$5.3 million) and pretax profits of \$2.4 million (2009 - \$2.3 million) from our independent contractors.

10. Pension and Retirement Plans

All of the Company's plans that provide retirement and similar benefits are defined contribution plans. Expenses for the Company's pension and profit-sharing plans, excess benefit plans and other similar plans were \$2.5 million and \$1.5 million for the three months ended March 31, 2010 and 2009, respectively.

11. Legal and Regulatory Matters

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. This case alleges failure to pay overtime and failure to provide meal and rest periods to a purported class of California admissions nurses, chaplains and sales representatives. The case seeks payment of penalties, interest and Plaintiffs' attorney fees. VITAS contests these allegations. In December 2009, the trial court denied Plaintiffs' motion for class certification. The lawsuit is in its early stages and we are unable to estimate our potential liability, if any, with respect to these allegations.

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

Regulatory Matters

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

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

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

12. Related Party Agreement

VITAS has two pharmacy services agreements ("Agreements") with Omnicare, Inc. and its subsidiaries ("OCR") whereby OCR provides specified pharmacy services for VITAS and its hospice patients in geographical areas served by both VITAS and OCR. The Agreements renew automatically for one-year terms. Either party may cancel the

Agreements at the end of any term by giving written notice at least 90 days prior to the end of said term. VITAS made purchases from OCR of \$8.6 million and \$7.9 million for the three months ended March 31, 2010 and 2009, respectively.

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

13. Cash Overdrafts Payable

Included in accounts payable at March 31, 2010 is cash overdrafts payable of \$10.5 million (December 31, 2009 - \$11.7 million).

14. Financial Instruments

We adopted the provisions of the FASB's authoritative guidance on fair value measurements. This statement defines a hierarchy which prioritizes the inputs in fair value measurements. Level 1 measurements are measurements using quoted prices in active markets for identical assets or liabilities. Level 2 measurements use significant other observable inputs. Level 3 measurements are measurements using significant unobservable inputs which require a company to develop its own assumptions. In recording the fair value of assets and liabilities, companies must use the most reliable measurement available. There was no impact on our financial position or results of operations upon adoption of this authoritative guidance.

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of March 31, 2010 (in thousands):

| | Carrying Value | Fair Value Measure | | |
|--|----------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Mutual fund investments of deferred compensation plans held in trust | \$25,925 | \$25,925 | \$- | \$ - |
| Long-term debt | 153,853 | 170,796 | - | - |

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

15. Capital Stock Transactions

On April 26, 2007, our Board of Directors authorized a \$150 million stock repurchase program. On May 19, 2008, our Board of Directors authorized an additional \$56 million to the April 2007 stock repurchase program. For the quarter ended March 31, 2010, we repurchased 31,375 shares at a weighted average cost per share of \$47.17 under the April 2007 program. For the quarter ended March 31, 2009 there was no stock repurchased.

16. Subsequent Events

In April 2010, we met the stock-price target of the Company's Long-term incentive plan. The stock price hurdle of \$54.00 was achieved during 30 trading days out of any 60 day trading day period. On April 16, 2010, the Compensation/Incentive Committee approved a stock grant of 27,900 shares and the related allocation to participants. The pretax cost of the stock grant was \$1.8 million.

17. Guarantor Subsidiaries

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

| March 31, 2010 | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-------------|---------------------------|-------------------------------|------------------------------|--------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 107,572 | \$ (274) | \$ 4,821 | \$ - | \$ 112,119 |
| Accounts receivable, less allowances | 623 | 86,368 | 421 | - | 87,412 |
| Intercompany receivables | - | 158,970 | - | (158,970) | - |
| Inventories | - | 6,940 | 669 | - | 7,609 |
| Current deferred income taxes | (341) | 15,255 | 94 | - | 15,008 |
| Prepaid expenses | 460 | 9,359 | 67 | - | 9,886 |
| Total current assets | 108,314 | 276,618 | 6,072 | (158,970) | 232,034 |
| Investments of deferred compensation plans | - | - | 25,925 | - | 25,925 |
| Properties and equipment, at cost, less accumulated depreciation | 10,175 | 62,797 | 2,217 | - | 75,189 |
| Identifiable intangible assets less accumulated amortization | - | 57,239 | - | - | 57,239 |
| Goodwill | - | 445,662 | 4,487 | - | 450,149 |
| Other assets | 11,008 | 2,345 | 339 | - | 13,692 |
| Investments in subsidiaries | 662,071 | 16,539 | - | (678,610) | - |
| Total assets | \$ 791,568 | \$ 861,200 | \$ 39,040 | \$ (837,580) | \$ 854,228 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Accounts payable | \$ (1,968) | \$ 51,520 | \$ 292 | \$ - | \$ 49,844 |
| Intercompany payables | 156,363 | - | 2,607 | (158,970) | - |
| Income taxes | (10,956) | 21,848 | 1,258 | - | 12,150 |
| Accrued insurance | 434 | 34,044 | - | - | 34,478 |
| Accrued compensation | 966 | 36,205 | 442 | - | 37,613 |
| Other current liabilities | 2,530 | 9,783 | 126 | - | 12,439 |
| Total current liabilities | 147,369 | 153,400 | 4,725 | (158,970) | 146,524 |
| Deferred income taxes | (10,985) | 43,400 | (7,446) | - | 24,969 |
| Long-term debt | 153,853 | - | - | - | 153,853 |
| Deferred compensation liabilities | - | - | 25,522 | - | 25,522 |
| Other liabilities | 3,345 | 2,029 | - | - | 5,374 |
| Stockholders' equity | 497,986 | 662,371 | 16,239 | (678,610) | 497,986 |
| Total liabilities and stockholders' equity | \$ 791,568 | \$ 861,200 | \$ 39,040 | \$ (837,580) | \$ 854,228 |

| December 31, 2009 | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--------------------------------------|------------|---------------------------|-------------------------------|------------------------------|--------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 109,331 | \$ (1,221) | \$ 4,306 | \$ - | \$ 112,416 |
| Accounts receivable, less allowances | 618 | 52,303 | 540 | - | 53,461 |

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

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| For the three months ended March 31, 2010 | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-----------|---------------------------|-------------------------------|------------------------------|--------------|
| Continuing Operations | | | | | |
| Service revenues and sales | \$- | \$ 303,002 | \$ 5,811 | \$ - | \$ 308,813 |
| Cost of services provided and goods sold | - | 216,200 | 2,937 | - | 219,137 |
| Selling, general and administrative expenses | 5,698 | 41,317 | 1,523 | - | 48,538 |
| Depreciation | 136 | 5,133 | 200 | - | 5,469 |
| Amortization | 330 | 894 | - | - | 1,224 |
| Total costs and expenses | 6,164 | 263,544 | 4,660 | - | 274,368 |
| Income/ (loss) from operations | (6,164) | 39,458 | 1,151 | - | 34,445 |
| Interest expense | (2,851) | (101) | - | - | (2,952) |
| Other (expense)/income - net | 3,621 | (3,637) | 202 | - | 186 |
| Income/ (loss) before income taxes | (5,394) | 35,720 | 1,353 | - | 31,679 |
| Income tax (provision)/ benefit | 1,744 | (13,539) | (526) | - | (12,321) |
| Equity in net income of subsidiaries | 23,008 | 826 | - | (23,834) | - |
| Net income | \$ 19,358 | \$ 23,007 | \$ 827 | \$ (23,834) | \$ 19,358 |

| For the three months ended March 31, 2009 | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-----------|---------------------------|-------------------------------|------------------------------|--------------|
| Continuing Operations | | | | | |
| Service revenues and sales | \$- | \$ 289,139 | \$ 5,799 | \$ - | \$ 294,938 |
| Cost of services provided and goods sold | - | 204,029 | 2,984 | - | 207,013 |
| Selling, general and administrative expenses | 5,485 | 40,392 | (84) | - | 45,793 |
| Depreciation | 151 | 5,007 | 167 | - | 5,325 |
| Amortization | 275 | 1,261 | - | - | 1,536 |
| Other operating expenses | 545 | - | - | - | 545 |
| Total costs and expenses | 6,456 | 250,689 | 3,067 | - | 260,212 |
| Income/ (loss) from operations | (6,456) | 38,450 | 2,732 | - | 34,726 |
| Interest (expense)/income | (2,770) | (80) | 6 | - | (2,844) |
| Other (expense)/income - net | 384 | (277) | (383) | - | (276) |
| Income/ (loss) before income taxes | (8,842) | 38,093 | 2,355 | - | 31,606 |
| Income tax (provision)/ benefit | 3,270 | (14,450) | (1,087) | - | (12,267) |
| Equity in net income of subsidiaries | 24,911 | 1,605 | - | (26,516) | - |
| Net income | \$ 19,339 | \$ 25,248 | \$ 1,268 | \$ (26,516) | \$ 19,339 |

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For the three months ended March 31, 2010

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidated |
|---|-------------|---------------------------|-------------------------------|--------------|
| Cash Flow from Operating Activities: | | | | |
| Net cash provided by operating activities | \$(14,132) | \$21,652 | \$ 131 | \$ 7,651 |
| Cash Flow from Investing Activities: | | | | |
| Capital expenditures | (2) | (5,176) | (246) | (5,424) |
| Business combinations, net of cash acquired | - | - | - | - |
| Proceeds from sale of property and equipment | - | 27 | - | 27 |
| Other sources/(uses) - net | (50) | (107) | - | (157) |
| Net cash provided/(used) by investing activities | (52) | (5,256) | (246) | (5,554) |
| Cash Flow from Financing Activities: | | | | |
| Change in cash overdrafts payable | 473 | (1,689) | - | (1,216) |
| Change in intercompany accounts | 13,377 | (13,840) | 463 | - |
| Dividends paid to shareholders | (2,739) | - | - | (2,739) |
| Purchases of treasury stock | (2,516) | - | - | (2,516) |
| Proceeds from exercise of stock options | 2,672 | - | - | 2,672 |
| Realized excess tax benefit on share based compensation | 1,135 | - | - | 1,135 |
| Other sources/(uses) - net | 23 | 80 | 167 | 270 |
| Net cash provided/ (used) by financing activities | 12,425 | (15,449) | 630 | (2,394) |
| Net increase/(decrease) in cash and cash equivalents | (1,759) | 947 | 515 | (297) |
| Cash and cash equivalents at beginning of year | 109,331 | (1,221) | 4,306 | 112,416 |
| Cash and cash equivalents at end of period | \$107,572 | \$(274) | \$ 4,821 | \$ 112,119 |

For the three months ended March 31, 2009

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidated |
|---|------------|---------------------------|-------------------------------|--------------|
| Cash Flow from Operating Activities: | | | | |
| Net cash provided/(used) by operating activities | \$(5,656) | \$28,627 | \$ 2,130 | \$ 25,101 |
| Cash Flow from Investing Activities: | | | | |
| Capital expenditures | (7) | (3,345) | (24) | (3,376) |
| Business combinations, net of cash acquired | - | (1,944) | - | (1,944) |
| Proceeds from sale of property and equipment | 1,256 | 104 | - | 1,360 |
| Other sources/(uses) - net | (198) | 46 | - | (152) |
| Net cash provided/(used) by investing activities | 1,051 | (5,139) | (24) | (4,112) |
| Cash Flow from Financing Activities: | | | | |
| Change in cash overdrafts payable | 1,343 | (1,685) | - | (342) |
| Change in intercompany accounts | 22,357 | (20,011) | (2,346) | - |
| Dividends paid to shareholders | (1,355) | - | - | (1,355) |
| Purchases of treasury stock | (231) | - | - | (231) |
| Proceeds from exercise of stock options | 68 | - | - | 68 |
| Realized excess tax benefit on share based compensation | 145 | - | - | 145 |
| Repayment of long-term debt | (10,700) | (99) | - | (10,799) |
| Other sources/(uses) - net | 20 | 71 | (335) | (244) |
| Net cash provided/ (used) by financing activities | 11,647 | (21,724) | (2,681) | (12,758) |
| Net increase/(decrease) in cash and cash equivalents | 7,042 | 1,764 | (575) | 8,231 |
| Cash and cash equivalents at beginning of year | 65 | 202 | 3,361 | 3,628 |
| Cash and cash equivalents at end of period | \$7,107 | \$1,966 | \$ 2,786 | \$ 11,859 |

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 months ended March 31, 2010 and 2009 (in thousands except per share amounts):

| | Three Months Ended | |
|-----------------------------------|--------------------|------------|
| | March 31, | |
| | 2010 | 2009 |
| Service revenues and sales | \$ 308,813 | \$ 294,938 |
| Net income | \$ 19,358 | \$ 19,339 |
| Diluted EPS | \$ 0.84 | \$ 0.85 |
| Adjusted EBITDA* | \$ 43,071 | \$ 42,224 |
| Adjusted EBITDA as a % of revenue | 13.9 % | 14.3 % |

*See page 21 for reconciliation to GAAP measures

For the three months ended March 31, 2010, the increase in consolidated service revenues and sales was driven by a 7.0% increase at VITAS while Roto-Rooter revenues decreased by 0.7%. The increase in service revenues at VITAS was a result of increased average daily census ("ADC") of 5.1%, driven by an increase in admissions of 4.8%, combined with Medicare price increases of approximately 1.3%. Roto-Rooter was driven by a 7.0% decrease in job count offset by an approximate 6.3% price and mix shift increase. The Roto-Rooter changes include the impact of acquisitions in 2009, offset by the conversion of one company-owned branch to an independent contractor in 2009. The impact of these transactions is not material. Consolidated net income is essentially flat over prior year. Diluted EPS decreased as the result of the increased number of average shares outstanding. Adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") increased 2.0% from the first quarter of 2009 to the first quarter of 2010.

EBITDA and Adjusted EBITDA are not measures derived in accordance with GAAP and exclude components that are important to understanding our financial performance. We use Adjusted EBITDA as a measure of earnings for our LTIP awards. We provide EBITDA and Adjusted EBITDA to help readers evaluate our operating results, compare our operating performance with that of similar companies that have different capital structures and help evaluate our ability to meet future debt service, capital expenditure and working capital requirements. Our EBITDA and Adjusted EBITDA should not be considered in isolation or as a substitute for comparable measures presented in accordance with GAAP. A reconciliation of our net income to our Adjusted EBITDA is presented on page 21.

VITAS expects to achieve full-year 2010 revenue growth, prior to Medicare cap, of 5.0% to 6.0%. Admissions are estimated to increase 2.0% to 4.0%. Adjusted EBITDA margin, prior to Medicare cap is estimated to be 15.0% to 15.5%. Roto-Rooter expects full-year 2010 revenue growth of 1.0% to 3.0%. The revenue estimate is a result of increased pricing of 3.0%, a favorable mix shift to higher revenue jobs, offset by a job count decline estimated at 2.0% to 4.0%. Adjusted EBITDA margin for 2010 is estimated to be in the range of 17.5% to 18.0%. We anticipate that our operating income and cash flows will be sufficient to operate our businesses and meet any commitments for the

foreseeable future.

Financial Condition

Liquidity and Capital Resources

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

- A \$34.0 million increase in accounts receivable primarily at VITAS, related to timing of Medicare payments and refund of overpayments from prior years.

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Net cash provided by operating activities decreased \$17.5 million due primarily to the increase in accounts receivable, partially offset by a decrease in accounts payable and other current liabilities. Management continually evaluates cash utilization alternatives, including share repurchase, debt repurchase, acquisitions and increased dividends to determine the most beneficial use of available capital resources.

We have issued \$28.0 million in standby letters of credit as of March 31, 2010, for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of March 31, 2010, we have approximately \$147.0 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the expansion feature. Management believes its liquidity and sources of capital are satisfactory for the Company's needs in the foreseeable future.

Commitments and Contingencies

Collectively, the terms of our credit agreements require us to meet various financial covenants, to be tested quarterly. In connection therewith, we are in compliance with all financial and other debt covenants as of March 31, 2010 and anticipate remaining in compliance throughout 2010.

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

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

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

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

Results of Operations

Three months ended March 31, 2010 versus 2009 - Consolidated Results

Our service revenues and sales for the first quarter of 2010 increased 4.7% versus services and sales revenues for the first quarter of 2009. Of this increase, \$14.5 million was attributable to VITAS offset by a \$648,000 decrease at Roto-Rooter. The following chart shows the components of those changes (dollar amounts in thousands):

| | Increase/(Decrease) | | | |
|-------------------|---------------------|---------|---|--|
| | Amount | Percent | | |
| VITAS | | | | |
| Routine homecare | 10,151 | 6.9 | % | |
| Continuous care | 3,094 | 8.9 | % | |
| General inpatient | 1,209 | 4.8 | % | |
| Medicare cap | 2,019 | 747.8 | % | |
| BNAF adjustment | (1,950) | -100.0 | % | |
| Roto-Rooter | | | | |
| Plumbing | 1,128 | 3.0 | % | |
| Drain cleaning | (1,943) | -5.3 | % | |
| Other | 167 | 1.4 | % | |
| Total | \$ 13,875 | 4.7 | % | |

The increase in VITAS' revenues for the first quarter of 2010 versus the first quarter of 2009 was a result of increased ADC of 5.1% driven by an increase in admissions of 4.8%, combined with Medicare reimbursement rate increases of approximately 1.3%. In excess of 90% of VITAS' service revenues for the period were from Medicare and Medicaid.

The increase in plumbing revenues for the first quarter of 2010 versus 2009 is attributable to a 9.0% increase in the average price per job and a 5.2% decrease in the number of jobs performed. The increase in the plumbing price per job was a combination of increased pricing and favorable job mix shift to more expensive jobs such as excavation. Our excavation job count increased by 12.6% compared to 2009. Drain cleaning revenues for the first quarter of 2010 versus 2009 reflect an 8.1% decline in the number of jobs, while the average price per job increased 2.9%. The increase in other revenues is attributable primarily to an increase in our independent contractor operations offset by lower sales in our HVAC operation.

The consolidated gross margin was 29.0% in the first quarter of 2010 as compared with 29.8% in the first quarter of 2009. On a segment basis, VITAS' gross margin was 22.8% in the first quarter of 2010 and 23.4% in the first quarter of 2009. The Roto-Rooter segment's gross margin was 45.2% for the first quarter of 2010 essentially flat with the first quarter of 2009. The decrease in VITAS' gross margin is attributable to higher labor costs for admissions and Medicare compliance personnel, the opening of inpatient units which carry significant one time start-up costs as capacity begins to ramp-up and a slight mix shift towards higher acuity care which has a lower gross margin than routine homecare.

Selling, general and administrative expenses ("SG&A") for the first quarter of 2010 were \$48.5 million, an increase of \$2.7 million (6.0%) versus the first quarter of 2009. Included in SG&A is a \$1.6 million increase related to the increase in our deferred compensation liability due to improved stock market performance. The offset to the increased liability is recorded in other (non-operating) income and expense. Also included in the SG&A increase is \$147,000 related to OIG expenses. The remaining change in SG&A is the result of typical cost of living increases for salaries and benefits plus increases in certain selling expenses which vary based on change in revenue.

Other income increased \$462,000 in the first quarter of 2010 to \$186,000 due to a \$1.8 million gain in the investments of deferred compensation plans which offsets the related expense in SG&A. This was offset by a \$1.2

million decrease related to the settlement of company-owned life insurance that occurred in 2009 but did not recur in 2010.

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

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

| | Three Months Ended March 31, | |
|---|------------------------------|-------------|
| | 2010 | 2009 |
| VITAS | | |
| Costs associated with the OIG investigation | \$ (99) | \$ (8) |
| Corporate | | |
| Costs related to contested proxy solicitation | - | (345) |
| Stock option expense | (1,298) | (1,292) |
| Noncash interest expense related to accounting for conversion feature of the convertible notes | (1,047) | (968) |
| Impact of non-deductible losses and non-taxable gains on investments held in deferred compensation trusts | - | 736 |
| Total | \$ (2,444) | \$ (1,877) |

Three months ended March 31, 2010 versus 2009 - Segment Results

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

| | Net Income | | | |
|-------------|---------------------|---------|---|--|
| | Increase/(Decrease) | | | |
| | Amount | Percent | | |
| VITAS | \$ 1,268 | 7.4 | % | |
| Roto-Rooter | (416) | -5.1 | % | |
| Corporate | (833) | -13.7 | % | |
| | \$ 19 | 0.1 | % | |

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENT OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2010
(in thousands)(unaudited)

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|-----------|-------------|------------|------------------------|
| 2010 (a) | | | | |
| Service revenues and sales | \$222,940 | \$ 85,873 | \$- | \$ 308,813 |
| Cost of services provided and goods sold | 172,093 | 47,044 | - | 219,137 |
| Selling, general and administrative expenses | 18,145 | 24,758 | 5,635 | 48,538 |
| Depreciation | 3,485 | 1,951 | 33 | 5,469 |
| Amortization | 771 | 123 | 330 | 1,224 |
| Total costs and expenses | 194,494 | 73,876 | 5,998 | 274,368 |
| Income/(loss) from operations | 28,446 | 11,997 | (5,998) | 34,445 |
| Interest expense | (32) | (68) | (2,852) | (2,952) |
| Intercompany interest income/(expense) | 1,289 | 702 | (1,991) | - |
| Other income/(expense)—net | (39) | 10 | 215 | 186 |
| Income/(loss) before income taxes | 29,664 | 12,641 | (10,626) | 31,679 |
| Income taxes | (11,226) | (4,828) | 3,733 | (12,321) |
| Net income/(loss) | \$18,438 | \$ 7,813 | \$(6,893) | \$ 19,358 |

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

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|---|----------|-------------|------------|------------------------|
| Pretax benefit/(cost): | | | | |
| Stock option expense | \$- | \$- | \$(2,051) | \$ (2,051) |
| Noncash impact of accounting for convertible debt | - | - | (1,655) | (1,655) |
| Expenses incurred in connection with the Office of Inspector | | | | |
| General investigation | (160) | - | - | (160) |
| Total | \$(160) | \$- | \$(3,706) | \$ (3,866) |

| | VITAS | Roto-Rooter | Corporate | Consolidated |
|---|---------|-------------|------------|--------------|
| After-tax benefit/(cost): | | | | |
| Stock option expense | \$- | \$- | \$(1,298) | \$ (1,298) |
| Noncash impact of accounting for convertible debt | - | - | (1,047) | (1,047) |
| Expenses incurred in connection with the Office of Inspector | | | | |
| General investigation | (99) | - | - | (99) |
| Total | \$(99) | \$- | \$(2,345) | \$ (2,444) |

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENT OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2009
(in thousands)(unaudited)

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|------------|-------------|-------------|------------------------|
| 2009 (a) | | | | |
| Service revenues and sales | \$ 208,417 | \$ 86,521 | \$- | \$ 294,938 |
| Cost of services provided and goods sold | 159,631 | 47,382 | - | 207,013 |
| Selling, general and administrative expenses | 17,546 | 24,375 | 3,872 | 45,793 |
| Depreciation | 3,219 | 2,054 | 52 | 5,325 |
| Amortization | 1,172 | 89 | 275 | 1,536 |
| Other operating expenses | - | - | 545 | 545 |
| Total costs and expenses | 181,568 | 73,900 | 4,744 | 260,212 |
| Income/(loss) from operations | 26,849 | 12,621 | (4,744) | 34,726 |
| Interest expense | (39) | (35) | (2,770) | (2,844) |
| Intercompany interest income/(expense) | 891 | 536 | (1,427) | - |
| Other income/(expense)—net | (3) | 116 | (389) | (276) |
| Income/(loss) before income taxes | 27,698 | 13,238 | (9,330) | 31,606 |
| Income taxes | (10,528) | (5,009) | 3,270 | (12,267) |
| Net income/(loss) | \$ 17,170 | \$ 8,229 | \$ (6,060) | \$ 19,339 |

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

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|---------|-------------|------------|------------------------|
| Pretax benefit/(cost): | | | | |
| Stock option expense | \$- | \$- | \$(2,042) | \$ (2,042) |
| Noncash impact of accounting for convertible debt | - | - | (1,530) | (1,530) |
| Non-taxable income on certain investments held in deferred compensation trusts | - | - | 1,211 | 1,211 |
| Expenses associated with contested proxy solicitation | - | - | (545) | (545) |
| Expenses incurred in connection with the Office of Inspector General investigation | (13) | - | - | (13) |
| Total | \$(13) | \$- | \$(2,906) | \$ (2,919) |

| | VITAS | Roto-Rooter | Corporate | Consolidated |
|---|-------|-------------|------------|--------------|
| After-tax benefit/(cost): | | | | |
| Stock option expense | \$- | \$- | \$(1,292) | \$ (1,292) |
| Noncash impact of accounting for convertible debt | - | - | (968) | (968) |
| Non-taxable income on certain investments held in deferred compensation trusts | - | - | 1,211 | 1,211 |
| Income tax impact of nondeductible losses on investments held in deferred compensation trusts | - | - | (475) | (475) |
| Expenses associated with contested proxy solicitation | - | - | (345) | (345) |

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Expenses incurred in connection with the Office of
Inspector

| | | | | | |
|-----------------------|------|-------|----------|-------------|---|
| General investigation | (8 |) - | - | (8 |) |
| Total | \$(8 |) \$- | \$(1,869 |) \$ (1,877 |) |

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Consolidating Summary and Reconciliation of Adjusted EBITDA

Chemed Corporation and Subsidiary Companies

(in thousands)

For the three months ended March 31, 2010

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|-----------|-------------|------------|------------------------|
| Net income/(loss) | \$ 18,438 | \$ 7,813 | \$(6,893) | \$ 19,358 |
| Add/(deduct): | | | | |
| Interest expense | 32 | 68 | 2,852 | 2,952 |
| Income taxes | 11,226 | 4,828 | (3,733) | 12,321 |
| Depreciation | 3,485 | 1,951 | 33 | 5,469 |
| Amortization | 771 | 123 | 330 | 1,224 |
| EBITDA | 33,952 | 14,783 | (7,411) | 41,324 |
| Add/(deduct): | | | | |
| Legal expenses of OIG investigation | 160 | - | - | 160 |
| Stock option expense | - | - | 2,051 | 2,051 |
| Advertising cost adjustment | - | (389) | - | (389) |
| Interest income | (45) | (2) | (28) | (75) |
| Intercompany interest income/(expense) | (1,289) | (702) | 1,991 | - |
| Adjusted EBITDA | \$ 32,778 | \$ 13,690 | \$(3,397) | \$ 43,071 |

For the three months ended March 31, 2009

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|-----------|-------------|------------|------------------------|
| Net income/(loss) | \$ 17,170 | \$ 8,229 | \$(6,060) | \$ 19,339 |
| Add/(deduct): | | | | |
| Interest expense | 39 | 35 | 2,770 | 2,844 |
| Income taxes | 10,528 | 5,009 | (3,270) | 12,267 |
| Depreciation | 3,219 | 2,054 | 52 | 5,325 |
| Amortization | 1,172 | 89 | 275 | 1,536 |
| EBITDA | 32,128 | 15,416 | (6,233) | 41,311 |
| Add/(deduct): | | | | |
| Non-taxable income from certain investments held in deferred compensation trusts | - | - | (1,211) | (1,211) |
| Expenses associated with contested proxy solicitation | - | - | 545 | 545 |
| Legal expenses of OIG investigation | 13 | - | - | 13 |
| Stock option expense | - | - | 2,042 | 2,042 |
| Advertising cost adjustment | - | (394) | - | (394) |
| Interest income | (48) | (19) | (15) | (82) |
| Intercompany interest income/(expense) | (891) | (536) | 1,427 | - |
| Adjusted EBITDA | \$ 31,202 | \$ 14,467 | \$(3,445) | \$ 42,224 |

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
 OPERATING STATISTICS FOR VITAS SEGMENT
 FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009
 (unaudited)

| OPERATING STATISTICS | 2010 | | 2009 | |
|--|-----------|---|-----------|---|
| Net revenue (\$000) | | | | |
| Homecare | \$157,226 | | \$147,075 | |
| Inpatient | 26,291 | | 25,082 | |
| Continuous care | 37,674 | | 34,580 | |
| Total before Medicare cap allowance and 2008 BNAF | \$221,191 | | \$206,737 | |
| Estimated BNAF | - | | 1,950 | |
| Medicare cap allowance | 1,749 | | (270) |) |
| Total | \$222,940 | | \$208,417 | |
| Net revenue as a percent of total before Medicare cap allowance | | | | |
| Homecare | 71.1 | % | 71.1 | % |
| Inpatient | 11.9 | | 12.2 | |
| Continuous care | 17.0 | | 16.7 | |
| Total before Medicare cap allowance and 2008 BNAF | 100.0 | | 100.0 | |
| Estimated BNAF | - | | 0.9 | |
| Medicare cap allowance | 0.8 | | (0.1) |) |
| Total | 100.8 | % | 100.8 | % |
| Average daily census (days) | | | | |
| Homecare | 8,112 | | 7,477 | |
| Nursing home | 3,162 | | 3,263 | |
| Routine homecare | 11,274 | | 10,740 | |
| Inpatient | 442 | | 421 | |
| Continuous care | 606 | | 567 | |
| Total | 12,322 | | 11,728 | |
| Total Admissions | 14,844 | | 14,168 | |
| Total Discharges | 14,461 | | 13,865 | |
| Average length of stay (days) | 75.8 | | 76.6 | |
| Median length of stay (days) | 13.0 | | 13.0 | |
| ADC by major diagnosis | | | | |
| Neurological | 32.6 | % | 32.5 | % |
| Cancer | 18.8 | | 19.6 | |
| Cardio | 11.9 | | 12.3 | |
| Respiratory | 6.6 | | 6.7 | |
| Other | 30.1 | | 28.9 | |
| Total | 100.0 | % | 100.0 | % |
| Admissions by major diagnosis | | | | |
| Neurological | 18.6 | % | 18.6 | % |
| Cancer | 33.5 | | 35.9 | |
| Cardio | 11.6 | | 11.1 | |
| Respiratory | 8.4 | | 7.6 | |
| Other | 27.9 | | 26.8 | |

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| | | | | |
|--|----------|---|----------|---|
| Total | 100.0 | % | 100.0 | % |
| Direct patient care margins | | | | |
| Routine homecare | 51.3 | % | 51.5 | % |
| Inpatient | 15.2 | | 17.4 | |
| Continuous care | 20.7 | | 19.1 | |
| Homecare margin drivers (dollars per patient day) | | | | |
| Labor costs | \$53.93 | | \$52.82 | |
| Drug costs | 7.77 | | 7.65 | |
| Home medical equipment | 6.94 | | 6.68 | |
| Medical supplies | 2.44 | | 2.27 | |
| Inpatient margin drivers (dollars per patient day) | | | | |
| Labor costs | \$286.81 | | \$271.75 | |
| Continuous care margin drivers (dollars per patient day) | | | | |
| Labor costs | \$526.47 | | \$521.30 | |
| Bad debt expense as a percent of revenues | 1.0 | % | 1.1 | % |
| Accounts receivable -- | | | | |
| Days of revenue outstanding- excluding unapplied Medicare payments | 43.4 | | 68.4 | |
| Days of revenue outstanding- including unapplied Medicare payments | 29.2 | | 37.5 | |

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our primary market risk exposure relates to interest rate risk exposure through variable interest rate borrowings. At March 31, 2010, we had no variable rate debt outstanding. At March 31, 2010, the fair value of the Notes approximates \$170.8 million which have a face value of \$187.0 million.

Item 4. Controls and Procedures

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

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

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

The following table shows the activity related to our share repurchase programs for the three months ended March 31, 2010:

| | Total Number of Shares Repurchased | Weighted Average Price Paid Per Share | Cumulative Shares Repurchased Under the Program | Dollar Amount Remaining Under The Program |
|---|--|--|---|---|
| April 2007 Program | | | | |
| January 1 through January 31, 2010 | 31,375 | \$ 47.17 | 1,736,972 | \$ 51,718,696 |
| February 1 through February 28, 2010 | - | \$ - | 1,736,972 | \$ 51,718,696 |
| March 1 through March 31, 2010 | - | \$ - | 1,736,972 | \$ 51,718,696 |
| First Quarter Total - April 2007 Program | 31,375 | \$ 47.17 | | |

On April 26, 2007, our Board of Directors authorized a \$150 million share repurchase plan with no expiration date. On May 20, 2008 our Board of Directors authorized an additional \$56 million under the April 2007 Program.

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits

| Exhibit No. | Description |
|----------------|--|
| 31.1 | Certification by Kevin J. McNamara pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934. |
| 31.2 | Certification by David P. Williams pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934. |
| 31.3 | |

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

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

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