

CHEMED CORP
Form 10-Q
November 02, 2012

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, 2012

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

Commission File Number: 1-8351

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

Delaware
(State or other jurisdiction of incorporation or organization)

31-0791746
(IRS Employer Identification No.)

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

45202
(Zip code)

(513) 762-6500
(Registrant's telephone number, including area code)

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

Yes 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 Accelerated filer Non-accelerated filer Smaller reporting company

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

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Yes No X

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

| Class | Amount | Date |
|-----------------------------|-------------------|--------------------|
| Capital Stock \$1 Par Value | 19,288,868 Shares | September 30, 2012 |

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)

| | September 30, 2012 | December 31, 2011 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$69,296 | \$38,081 |
| Accounts receivable less allowances of \$11,782 (2011 - \$11,524) | 101,152 | 77,924 |
| Inventories - net | 7,639 | 8,668 |
| Current deferred income taxes | 14,118 | 12,540 |
| Prepaid income taxes | 3,044 | 2,131 |
| Prepaid expenses | 9,855 | 11,409 |
| Total current assets | 205,104 | 150,753 |
| Investments of deferred compensation plans | 35,053 | 31,629 |
| Properties and equipment, at cost, less accumulated depreciation of \$159,407 (2011 - \$146,709) | 90,135 | 82,951 |
| Identifiable intangible assets less accumulated amortization of \$30,035 (2011 - \$28,904) | 57,507 | 58,262 |
| Goodwill | 465,861 | 460,633 |
| Other assets | 11,127 | 11,677 |
| Total Assets | \$864,787 | \$795,905 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$44,056 | \$48,225 |
| Income taxes | 1,496 | 90 |
| Accrued insurance | 39,518 | 37,147 |
| Accrued compensation | 44,117 | 41,087 |
| Other current liabilities | 18,494 | 18,851 |
| Total current liabilities | 147,681 | 145,400 |
| Deferred income taxes | 24,264 | 29,463 |
| Long-term debt | 172,812 | 166,784 |
| Deferred compensation liabilities | 34,626 | 30,693 |
| Other liabilities | 10,779 | 9,881 |
| Total Liabilities | 390,162 | 382,221 |
| STOCKHOLDERS' EQUITY | | |
| Capital stock - authorized 80,000,000 shares \$1 par; issued 31,450,817 shares (2011 - 30,936,925 shares) | 31,451 | 30,937 |
| Paid-in capital | 428,232 | 398,094 |
| Retained earnings | 599,680 | 546,757 |
| Treasury stock - 12,257,661 shares (2011 - 11,880,051) | (586,744 |) (564,091 |
| Deferred compensation payable in Company stock | 2,006 | 1,987 |
| Total Stockholders' Equity | 474,625 | 413,684 |

| | | |
|--|-----------|-----------|
| Total Liabilities and Stockholders' Equity | \$864,787 | \$795,905 |
|--|-----------|-----------|

See accompanying notes to unaudited consolidated financial statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| Service revenues and sales | \$354,353 | \$341,439 | \$1,061,466 | \$1,005,717 |
| Cost of services provided and goods sold (excluding depreciation) | 256,610 | 245,063 | 771,423 | 722,118 |
| Selling, general and administrative expenses | 52,955 | 47,618 | 155,892 | 153,696 |
| Depreciation | 6,557 | 6,313 | 19,178 | 18,959 |
| Amortization | 1,135 | 1,134 | 3,375 | 3,243 |
| Other operating expenses | 1,126 | - | 1,126 | - |
| Total costs and expenses | 318,383 | 300,128 | 950,994 | 898,016 |
| Income from operations | 35,970 | 41,311 | 110,472 | 107,701 |
| Interest expense | (3,743) | (3,555) | (11,032) | (10,260) |
| Other income/(expense) - net | 1,840 | (1,935) | 2,965 | 881 |
| Income before income taxes | 34,067 | 35,821 | 102,405 | 98,322 |
| Income taxes | (13,222) | (13,934) | (39,841) | (38,048) |
| Net income | \$20,845 | \$21,887 | \$62,564 | \$60,274 |
| | | | | |
| Earnings Per Share | | | | |
| Net income | \$1.10 | \$1.06 | \$3.30 | \$2.88 |
| Average number of shares outstanding | 18,960 | 20,674 | 18,977 | 20,934 |
| | | | | |
| Diluted Earnings Per Share | | | | |
| Net income | \$1.07 | \$1.04 | \$3.23 | \$2.82 |
| Average number of shares outstanding | 19,404 | 21,055 | 19,382 | 21,400 |
| | | | | |
| Cash Dividends Per Share | \$0.18 | \$0.16 | \$0.50 | \$0.44 |

See accompanying notes to unaudited consolidated financial statements.

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

| | Nine Months Ended September 30, | |
|--|------------------------------------|-----------|
| | 2012 | 2011 |
| Cash Flows from Operating Activities | | |
| Net income | \$62,564 | \$60,274 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 22,553 | 22,202 |
| Deferred income taxes | (6,808) | (1,608) |
| Provision for uncollectible accounts receivable | 7,303 | 6,640 |
| Amortization of discount on convertible notes | 6,028 | 5,633 |
| Stock option expense | 6,709 | 6,903 |
| Noncash long-term incentive compensation | - | 2,595 |
| Changes in operating assets and liabilities, excluding amounts acquired in business combinations: | | |
| Increase in accounts receivable | (30,409) | (5,991) |
| Decrease/(increase) in inventories | 1,029 | (1,160) |
| Decrease in prepaid expenses | 1,554 | 254 |
| Increase in accounts payable and other current liabilities | 4,454 | 2,654 |
| Increase in income taxes | 1,292 | 12,253 |
| Increase in other assets | (3,944) | (3,811) |
| Increase in other liabilities | 6,648 | 3,567 |
| Excess tax benefit on share-based compensation | (2,714) | (3,368) |
| Other sources | 1,078 | 899 |
| Net cash provided by operating activities | 77,337 | 107,936 |
| Cash Flows from Investing Activities | | |
| Capital expenditures | (26,489) | (23,459) |
| Business combinations, net of cash acquired | (5,900) | (3,689) |
| Other sources/(uses) | 528 | (829) |
| Net cash used by investing activities | (31,861) | (27,977) |
| Cash Flows from Financing Activities | | |
| Dividends paid | (9,641) | (9,393) |
| Purchases of treasury stock | (15,047) | (110,288) |
| Proceeds from issuance of capital stock | 10,483 | 7,979 |
| Excess tax benefit on share-based compensation | 2,714 | 3,368 |
| Increase/(decrease) in cash overdrafts payable | (3,299) | 2,297 |
| Debt issuance costs | - | (2,723) |
| Other sources | 529 | 226 |
| Net cash used by financing activities | (14,261) | (108,534) |
| Increase/(Decrease) in Cash and Cash Equivalents | 31,215 | (28,575) |
| Cash and cash equivalents at beginning of year | 38,081 | 49,917 |
| Cash and cash equivalents at end of period | \$69,296 | \$21,342 |

See accompanying notes to unaudited consolidated financial statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
Notes to Unaudited Consolidated Financial Statements

1. Basis of Presentation

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

We have prepared the accompanying unaudited consolidated financial statements of Chemed in accordance with Rule 10-01 of SEC Regulation S-X. Consequently, we have omitted certain disclosures required under generally accepted accounting principles in the United States ("GAAP") for complete financial statements. The December 31, 2011 balance sheet data were derived from audited financial statements but do not include all disclosures required by GAAP. However, in our opinion, the financial statements presented herein contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our financial position, results of operations and cash flows. These financial statements are prepared on the same basis as and should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2011.

2. Revenue Recognition

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

As of September 30, 2012, VITAS has approximately \$798,000 in unbilled revenue included in accounts receivable (December 31, 2011 - \$720,000). The unbilled revenue at VITAS relates to hospice programs currently undergoing focused medical reviews ("FMR"). During FMR, surveyors working on behalf of the U.S. Federal government review certain patient files for compliance with Medicare regulations. During the time the patient file is under review, we are unable to bill for care provided to those patients. We make appropriate provisions to reduce our revenue and accounts receivable balance for potential denials of patient service revenue due to FMR activity.

We actively monitor each of our hospice programs, by provider number, as to their specific admission, discharge rate and median length of stay data in an attempt to determine whether they are likely to exceed the annual per-beneficiary Medicare cap ("Medicare cap"). Should we determine that revenues for a program are likely to exceed the Medicare cap based on projected trends, we attempt to institute corrective action to influence the patient mix or to increase patient admissions. However, should we project our corrective action will not prevent that program from exceeding its Medicare cap, we estimate the amount of revenue recognized during the period that will require repayment to the Federal government under the Medicare cap and record the amount as a reduction to patient revenue. The Medicare cap measurement period is from September 29 through September 28 of the following year for admissions and from November 1 through October 31 of the following year for revenue.

During the three-month period ended September 30, 2012, we did not record any Medicare cap liability. During the nine-month period ended September 30, 2012, we reversed Medicare cap liability for amounts recorded in the fourth quarter of 2011 for three programs' projected 2012 measurement period liability. We reversed these amounts as improving admissions trends in these programs indicate that the liability had been eliminated.

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

| | September 30, | |
|--|---------------|------|
| | 2012 | 2011 |

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| | | | |
|------------------------------------|---------|---------|---|
| Beginning balance January 1, | \$2,965 | \$1,371 | |
| Reversal - 2012 measurement period | (2,577 |) - | |
| Reversal - 2011 measurement period | - | (829 |) |
| Other | - | (198 |) |
| Ending balance September 30, | \$388 | \$344 | |

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

| Three months ended September 30, | | Nine months ended September 30, | |
|-------------------------------------|----------|------------------------------------|----------|
| 2012 | 2011 | 2012 | 2011 |
| \$ 1,983 | \$ 1,775 | \$ 6,021 | \$ 5,298 |

3. Segments

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|----------------------------|-------------------------------------|-----------|------------------------------------|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| Service Revenues and Sales | | | | |
| VITAS | \$267,990 | \$252,944 | \$794,050 | \$731,712 |
| Roto-Rooter | 86,363 | 88,495 | 267,416 | 274,005 |
| Total | \$354,353 | \$341,439 | \$1,061,466 | \$1,005,717 |
| After-tax Earnings | | | | |
| VITAS | \$21,940 | \$20,970 | \$61,999 | \$57,684 |
| Roto-Rooter | 6,145 | 8,016 | 21,715 | 25,618 |
| Total | 28,085 | 28,986 | 83,714 | 83,302 |
| Corporate | (7,240) | (7,099) | (21,150) | (23,028) |
| Net income | \$20,845 | \$21,887 | \$62,564 | \$60,274 |

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

4. Earnings per Share

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

| For the Three Months Ended September 30, | Net Income | | Earnings per Share |
|--|------------|--------|--------------------|
| | Income | Shares | |
| 2012 | | | |
| Earnings | \$20,845 | 18,960 | \$1.10 |
| Dilutive stock options | - | 341 | |
| Nonvested stock awards | - | 103 | |
| Diluted earnings | \$20,845 | 19,404 | \$1.07 |
| 2011 | | | |
| Earnings | \$21,887 | 20,674 | \$1.06 |
| Dilutive stock options | - | 293 | |

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| | | | |
|------------------------|----------|--------|--------|
| Nonvested stock awards | - | 88 | |
| Diluted earnings | \$21,887 | 21,055 | \$1.04 |

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| For the Nine Months Ended September 30, | Net Income | | Earnings per Share |
|---|------------|--------|--------------------|
| | Income | Shares | |
| 2012 | | | |
| Earnings | \$62,564 | 18,977 | \$3.30 |
| Dilutive stock options | - | 313 | |
| Nonvested stock awards | - | 92 | |
| Diluted earnings | \$62,564 | 19,382 | \$3.23 |
| 2011 | | | |
| Earnings | \$60,274 | 20,934 | \$2.88 |
| Dilutive stock options | - | 379 | |
| Nonvested stock awards | - | 87 | |
| Diluted earnings | \$60,274 | 21,400 | \$2.82 |

For the three and nine-month periods ended September 30, 2012, 1.4 million stock options were excluded from the computation of diluted earnings per share as their exercise prices were greater than the average market price for most of the period. For the three and nine-month period ended September 30, 2011, 1.5 million and 980,000, respectively, stock options were excluded from the computation of diluted earnings per share.

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

The following table provides examples of how changes in our stock price impact the number of shares that would be included in our diluted earnings per share calculation at September 30, 2012. It also shows the impact on the number of shares issuable upon conversion of the Notes and settlement of the purchased call options and sold warrants:

| Share Price | Shares Underlying 1.875% | | Total Treasury Method | Shares Due to the Company | Incremental Shares Issued/ Received by the Company upon Conversion (b) |
|-------------|--------------------------|----------------|------------------------|---------------------------|--|
| | Convertible Notes | Warrant Shares | Incremental Shares (a) | under Notes Hedges | |
| \$ 80.73 | 44,670 | - | 44,670 | (47,786) | (3,116) |
| \$ 90.73 | 299,912 | - | 299,912 | (320,837) | (20,925) |
| \$ 100.73 | 504,477 | - | 504,477 | (539,674) | (35,197) |
| \$ 110.73 | 672,093 | 120,638 | 792,731 | (718,985) | 73,746 |
| \$ 120.73 | 811,941 | 319,805 | 1,131,746 | (868,591) | 263,155 |
| \$ 130.73 | 930,395 | 488,502 | 1,418,897 | (995,309) | 423,588 |

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

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

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

We are in compliance with all debt covenants as of September 30, 2012. We have issued \$29.2 million in standby letters of credit as of September 30, 2012 for insurance purposes. Issued letters of credit reduce our available credit under the 2011 Credit Agreement. As of September 30, 2012, we have approximately \$320.8 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the \$150 million expansion feature.

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

| | September 30, 2012 | | December 31, 2011 | |
|--|--------------------|----------|-------------------|----------|
| Principal amount of convertible debentures | \$ | 186,956 | \$ | 186,956 |
| Unamortized debt discount | | (14,144) | | (20,172) |
| Carrying amount of convertible debentures | \$ | 172,812 | \$ | 166,784 |
| Additional paid in capital (net of tax) | \$ | 31,310 | \$ | 31,310 |

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|----------|---------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Cash interest expense | \$ 1,381 | \$ 1,345 | \$ 4,064 | \$ 3,786 |
| Non-cash amortization of debt discount | 2,043 | 1,910 | 6,028 | 5,633 |
| Amortization of debt costs | 319 | 300 | 940 | 841 |
| Total interest expense | \$ 3,743 | \$ 3,555 | \$ 11,032 | \$ 10,260 |

The unamortized debt discount is being amortized using the effective interest method over the remaining life of the Notes. The effective rate on the Notes is approximately 6.875% as of September 30, 2012.

6. Other Income/(Expense) -- Net

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|-------------|---------------------------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| Market value gains/(losses) on assets held in deferred compensation trust | \$ 1,576 | \$ (2,011) | \$ 2,761 | \$ 796 |
| Loss on disposal of property and equipment | (80) | (79) | (228) | (68) |
| Interest income | 291 | 74 | 401 | 197 |
| Other - net | 53 | 81 | 31 | (44) |
| Other income/(expense) - net | \$ 1,840 | \$ (1,935) | \$ 2,965 | \$ 881 |

7. Stock-Based Compensation Plans

On February 17, 2012, the Compensation/Incentive Committee of the Board of Directors ("CIC") approved a grant of 35,969 shares of restricted stock to certain key employees. The restricted shares cliff vest four years from the date of issuance. The cumulative compensation expense related to the restricted stock award is \$2.3 million and will be recognized ratably over the 4 year vesting period. We assumed no forfeitures in determining the cumulative compensation expense of the grant.

On February 17, 2012, the CIC approved a grant of 442,350 stock options to certain employees. The stock options vest ratably over three years from the date of issuance. The cumulative compensation expense related to the stock option grant is \$7.1 million and will be recognized over the 3 year vesting period. We used the Black-Scholes option valuation method to determine the cumulative compensation expense of the grant.

8. Independent Contractor Operations

The Roto-Rooter segment sublicenses with 66 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 September 30, 2012 totaling \$1.2 million (December 31, 2011 - \$1.1 million). In most cases these loans are fully or partially secured by equipment owned by the contractor. The interest rates on the loans range from 0% to 8% per annum and the remaining terms of the loans range from 2 months to 5 years at September 30, 2012. We recorded the following from our independent contractors (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|----------------|----------------------------------|----------|---------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenues | \$ 6,942 | \$ 6,575 | \$ 20,434 | \$ 19,614 |
| Pretax profits | 3,611 | 3,236 | 10,424 | 9,625 |

9. Pension and Retirement Plans

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|----|----------------------------------|--------|---------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| \$ | 2,646 | \$ 105 | \$ 8,501 | \$ 7,058 |

10. Legal and Regulatory Matters

The VITAS segment of the Company's business operates in a heavily-regulated industry. As a result, the Company is subjected to inquiries and investigations by various government agencies, as well as to lawsuits, including qui tam actions. The following sections describe the various ongoing lawsuits and investigations of which the Company is currently aware. It is not possible at this time for us to estimate either the timing or outcome of any of those matters, or whether any potential loss, or range of potential losses, is probable or estimable.

Litigation

On March 1, 2010 Anthony Morangelli and Frank Ercole filed a class action lawsuit in federal district court for the Eastern District of New York, Morangelli et al. v. Chemed Corporation, et al., 1-10-cv-00876-BMC, seeking unpaid minimum wages and overtime service technician compensation from Roto-Rooter and Chemed. They also seek payment of penalties, interest and plaintiffs' attorney fees. We contest these allegations. In September 2010, the Court conditionally certified a nationwide class of service technicians, excluding those who signed dispute resolution agreements in which they agreed to arbitrate claims arising out of their employment.

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, Bernadette Santos, et al. v. Vitas Healthcare Corporation of California, BC359356. This case alleges failure to pay overtime and failure to provide meal and rest periods to a purported class of California admissions nurses, chaplains and sales representatives. The case seeks payment of penalties, interest and Plaintiffs' attorney fees. We contest these allegations. In December 2009, the trial court denied Plaintiffs' motion for class certification. In July 2011, the Court of Appeals affirmed denial of class certification on the travel time, meal and rest period claims, and reversed the trial court's denial on the off-the-clock and sales representation exemption claims. Plaintiffs filed an appeal of this decision. In September 2012, in response to an order of reconsideration, the Court of Appeals reiterated its previous rulings.

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

Regardless of the outcome of any of the preceding matters, litigation adversely affects us through defense costs, diversion of management time, and related publicity.

Regulatory Matters

In April 2005, VITAS received a subpoena from the Office of the Inspector General ("OIG") of the U.S. Department of Health and Human Services requesting that VITAS produce various categories of documents from 1998 through the date of the subpoena in connection with an investigation into an alleged failure to appropriately bill Medicare and Medicaid for hospice services. The requested categories of documents included patient medical and billing records

for 320 past and then current patients from VITAS's three largest programs; policy and procedure manuals; information concerning patient admissions, certifications, discharges, and lengths of stay; and census information. In the third quarter of 2005, the OIG requested additional information from us. In May 2006, VITAS received another subpoena from OIG seeking certain information concerning employees and their compensation from 1999 through 2004. In 2004, two former VITAS employees filed a related qui tam suit in U.S. District Court for the Southern District of Florida, United States, et al. ex rel. Barys v. Vitas Healthcare Corp., 1:04-cv-21431. The complaint asserted violations of the federal False Claims Act against VITAS and certain of its affiliates, based on the alleged fraudulent admissions and recertification of ineligible patients. In July 2007, the district court dismissed the suit with prejudice. The U.S. Court of Appeals for the Eleventh Circuit affirmed the dismissal in November 2008. In March 2009, VITAS received a letter from the Department of Justice indicating that its investigation of VITAS's Florida programs is ongoing.

In July 2012, VITAS received an investigative subpoena from the Florida Attorney General seeking documents previously produced in the course of prior government investigations as well as, for the period January 1, 2007 through the date of production, billing records and procedures; information concerning business results, plans, and strategies; documents concerning patient eligibility for hospice care; and certain information concerning employees and their compensation. We are conferring with the Attorney General regarding those document requests.

In May 2009, VITAS received an administrative subpoena from the U.S. Department of Justice requesting that VITAS deliver to OIG various categories of documents for its headquarters and Texas programs from January 1, 2003 through the date of the subpoena. The requested categories included policy and procedure manuals and information concerning Medicare and Medicaid billing and the provision of hospice services; patient medical records; information concerning business plans, strategies, and results and VITAS's affiliated entities and referral sources; and certain information concerning employees and their compensation. In August 2009, the OIG selected medical records for 59 past and current patients from a Texas program for review. In September 2010, VITAS received a second administrative subpoena from the Department of Justice seeking electronic documents of 10 current and former employees. In April 2011, the U.S. Attorney provided the Company with a copy of a qui tam complaint filed under seal in the U.S. District Court for the Northern District of Texas, United States, et al. ex rel. Rehfeldt v. Vitas Healthcare Corp., 3:09-cv-0203. In November 2011, the complaint was unsealed. The U.S. Attorney and the Attorney General for the State of Texas filed notices in November 2011 stating that they had decided not to intervene in the case at that time but indicating that they continue to investigate the allegations. The complaint asserts violations of the federal False Claims Act and the Texas Medicaid Fraud Prevention Act based on the alleged admission and re-certification of ineligible patients, conspiracy to admit ineligible patients, and backdating patient revocations. The suit was brought by Michael Rehfeldt, a former general manager of VITAS's San Antonio program, against VITAS, the San Antonio program's former Regional Vice-President, Keith Becker, and former Medical Director, Justo Cisneros, and their respective then-current employers: Wellmed Medical Management, Care Level Management, LLC, Inspiris Hospice, LLC, and Inspiris, Inc. The plaintiff dismissed all claims against their then-current employers in March and April of 2012. The complaint has yet to be served on any of the VITAS entities.

In February 2010, VITAS received a companion civil investigative demand ("CID") from the Texas Attorney General seeking documents from January 1, 2002 through the date of the CID, and interrogatory responses in connection with a related investigation of possible fraudulent submission of Medicaid claims for non-qualifying patients and fraudulent shifting of costs from VITAS to the State of Texas and the United States. The CID requested similar information sought by the Department of Justice's May 2009 administrative subpoena, together with information concerning record-keeping and retention practices, and medical records concerning 117 patients. In September 2010, VITAS received a second CID from the Texas Attorney General seeking additional documents concerning business plans and results, revocation forms for certain patients, and electronic documents of 10 current and former employees.

In June 2011, the U.S. Attorney provided the Company with a partially unsealed qui tam complaint filed under seal in the U.S. District Court for the Western District of Texas, United States, et al. ex rel. Urick v. Vitas HME Solutions, Inc. et al., 5:08-cv-0663. The U.S. Attorney filed a notice in May 2012 stating that it had decided not to intervene in the case at that time but indicating that it continues to investigate the allegations. In June 2012, the complaint was unsealed. The complaint asserts violations of the federal False Claims Act and the Texas Medicaid Fraud Prevention Act based on allegations of a conspiracy to submit to Medicare and Medicaid false claims involving hospice services for ineligible patients, unnecessary medical supplies, failing to satisfy certain prerequisites for payment, and altering patient records, including backdating patient revocations. The suit was brought by Barbara Urick, a registered nurse in VITAS's San Antonio program, against VITAS, certain of its affiliates, and several former VITAS employees, including physicians Justo Cisneros and Antonio Cavazos and nurses Sally Schwenk, Diane Anest, and Edith Reed. In September 2012, the plaintiff dismissed all claims against the individual defendants. The complaint has yet to be served on any of the VITAS entities.

Also in June 2011, the U.S. Attorney provided the Company with a partially unsealed qui tam complaint filed under seal in the U.S. District Court for the Northern District of Illinois, United States, et al. ex rel. Spottiswood v. Chemed Corp., 1:07-cv-4566. In April 2012, the complaint was unsealed. The U.S. Attorney and Attorney General for the State of Illinois filed notices in April and May 2012, respectively, stating that they had decided not to intervene in the case at that time but indicating that they continue to investigate the allegations. The complaint asserts violations of the federal False Claims Act and the Illinois Whistleblower Reward and Protection Act based on allegations that VITAS fraudulently billed Medicare and Medicaid for providing unwarranted continuous care services. The suit was brought by Laura Spottiswood, a former part-time pool registered nurse at VITAS, against Chemed, VITAS, and a VITAS affiliate. The complaint has yet to be served.

In June 2012, VITAS received an administrative subpoena from OIG in connection with an investigation of possible improper claims submitted to the Medicare and Medicaid programs. It seeks production of various categories of documents concerning the provision of hospice services, for headquarters and its Southern California programs, for the period January 1, 2007 through the date of the subpoena. The categories of documents include policy, procedure and training manuals; documents concerning patient eligibility for hospice care, including referrals, admissions, certifications, revocations and census information; documents concerning claims submitted to government programs; certain information concerning employees and their compensation; and documents concerning VITAS's financial performance. In August 2012, the OIG also subpoenaed medical records for 268 patients from three Southern California programs. We are conferring with the U.S. Attorney's Office for the Central District of California regarding those document requests.

In September 2012, VITAS received an administrative subpoena from OIG seeking production of medical records for 102 patients in 10 states who received continuous care between 2004 and 2009. We are conferring with OIG regarding those requests.

The costs to comply with these investigations were not material for any period presented. Regardless of the outcome of any of the preceding matters, responding to the subpoenas and dealing with the various regulatory agencies can adversely affect us through defense costs, diversion of management time, and related publicity.

11. Concentration of Risk

VITAS has pharmacy services agreements ("Agreements") with Omnicare, Inc. and its subsidiaries ("OCR") whereby OCR provides specified pharmacy services for VITAS and its hospice patients in geographical areas served by both VITAS and OCR. The Agreements renew automatically for one-year terms. Either party may cancel the Agreements at the end of any term by giving 90 days prior written notice. VITAS made purchases from OCR of \$10.6 million and \$10.0 million for the three months ended September 30, 2012 and 2011, respectively. VITAS made purchases from OCR of \$30.9 million and \$29.2 million for the nine months ended September 30, 2012 and 2011, respectively. For the three and nine month periods ending September 30, 2012 and 2011, respectively, purchases from this vendor represent over 90% of all pharmacy services used by VITAS.

12. Cash Overdrafts and Cash Equivalents

Included in accounts payable at September 30, 2012 is cash overdrafts payable of \$7.0 million (December 31, 2011 - \$10.3 million).

From time to time throughout the year, we invest excess cash in money market funds with major commercial banks. We closely monitor the creditworthiness of the institutions with which we invest our overnight funds. We had \$57.2 million in cash equivalents as of September 30, 2012. There was \$32.5 million in cash equivalents as of December 31, 2011. The weighted average rate of return for our cash equivalents was 0.2% for September 30, 2012 and 0.1% for December 31, 2011.

13. Financial Instruments

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

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of September 30, 2012 (in thousands):

| | C a r r y i n g 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 | \$35,053 | \$35,053 | \$- | \$- |
| Long-term debt | 172,812 | 197,126 | - | - |

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

14. Capital Stock Transactions

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

| | Three months ended September | | Nine months ended September | |
|----------------------------------|------------------------------|-------------|-----------------------------|-------------|
| | 2012 | 30, 2011 | 2012 | 30, 2011 |
| Shares repurchased | 9,334 | 1,530,030 | 209,234 | 1,871,543 |
| Weighted average price per share | \$62.75 | \$55.39 | \$56.03 | \$60.30 |

15. Business Combinations

In the first nine months of 2012, we completed four business combinations within our Roto-Rooter segment for \$5.9 million in cash to increase our market penetration in Ft. Lauderdale, Florida: Bend, Oregon; Shreveport, Louisiana; and Boise, Idaho. A substantial portion of this aggregate purchase price was allocated to goodwill. The operating results of these business combinations have been included in our results of operations since the acquisition date and are not material for the three and nine-month periods ended September 30, 2012 nor for the comparable prior year periods.

16. Recent Accounting Statements

In July 2012, the FASB issued Accounting Standards Update "ASU" No. 2012-02 – Intangibles Goodwill and Other which provides additional guidance related to the impairment testing of indefinite-lived intangible assets. ASU No. 2012-02 allows an entity to first assess qualitative factors to determine whether it is necessary to perform further impairment testing. The revised guidance is effective for fiscal years beginning after September 15, 2012 but early adoption is permitted. Our impairment testing date is October 1 of each year and we adopted the new guidelines in the third quarter of 2012. There was no impact as a result of the adoption.

17. HVAC Exit Activities

In August 2012, Roto-Rooter management made the decision to shut-down its one remaining heating, ventilation and air conditioning (HVAC) business located in Baltimore, Maryland. The HVAC business was a portion of a larger business which included plumbing operations. The plumbing and HVAC businesses shared facilities and administrative functions. The costs or related cash flows of these shared facilities and administrative functions were not separately tracked or allocated for the HVAC operation. As a result, the HVAC business does not qualify for discontinued operation treatment under US GAAP. The operating results of the HVAC operation are reported in continuing operations in the consolidated financial statements for all periods presented. The pretax costs incurred in conjunction with the shut-down were \$1.1 million and are recorded in other operating expenses. The costs are comprised mainly of severance and lease termination costs.

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18. 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 September 30, 2012 and December 31, 2011 for the balance sheet, the three and nine months ended September 30, 2012 and September 30, 2011 for the income statement and the nine months ended September 30, 2012 and September 30, 2011 for the statement of cash flows (dollars in thousands):

| September 30, 2012 | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|------------|------------------------|----------------------------|---------------------------|--------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$58,449 | \$3,010 | \$ 7,837 | \$- | \$69,296 |
| Accounts receivable, less allowances | 955 | 99,639 | 558 | - | 101,152 |
| Intercompany receivables | - | 298,490 | - | (298,490) | - |
| Inventories - net | - | 6,946 | 693 | - | 7,639 |
| Current deferred income taxes | (1,628) | 15,512 | 234 | - | 14,118 |
| Prepaid income taxes | 5,251 | (1,799) | (408) | - | 3,044 |
| Prepaid expenses | 730 | 8,935 | 190 | - | 9,855 |
| Total current assets | 63,757 | 430,733 | 9,104 | (298,490) | 205,104 |
| Investments of deferred compensation plans | - | - | 35,053 | - | 35,053 |
| Properties and equipment, at cost, less accumulated depreciation | 11,132 | 76,273 | 2,730 | - | 90,135 |
| Identifiable intangible assets less accumulated amortization | - | 57,507 | - | - | 57,507 |
| Goodwill | - | 461,277 | 4,584 | - | 465,861 |
| Other assets | 6,396 | 1,765 | 2,966 | - | 11,127 |
| Investments in subsidiaries | 852,204 | 24,205 | - | (876,409) | - |
| Total assets | \$933,489 | \$1,051,760 | \$ 54,437 | \$(1,174,899) | \$864,787 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Accounts payable | \$(5,239) | \$48,934 | \$ 361 | \$- | \$44,056 |
| Intercompany payables | 294,307 | - | 4,183 | (298,490) | - |
| Income taxes | (818) | 601 | 1,713 | - | 1,496 |
| Accrued insurance | 1,288 | 38,230 | - | - | 39,518 |
| Accrued compensation | 3,075 | 40,595 | 447 | - | 44,117 |
| Other current liabilities | 3,124 | 15,017 | 353 | - | 18,494 |
| Total current liabilities | 295,737 | 143,377 | 7,057 | (298,490) | 147,681 |
| Deferred income taxes | (12,830) | 47,968 | (10,874) | - | 24,264 |
| Long-term debt | 172,812 | - | - | - | 172,812 |
| Deferred compensation liabilities | - | 33 | 34,593 | - | 34,626 |
| Other liabilities | 3,145 | 6,875 | 759 | - | 10,779 |
| Stockholders' equity | 474,625 | 853,507 | 22,902 | (876,409) | 474,625 |
| Total liabilities and stockholders' equity | \$933,489 | \$1,051,760 | \$ 54,437 | \$(1,174,899) | \$864,787 |
| December 31, 2011 | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |

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ASSETS

| | | | | | |
|--|-----------|-----------|------------|--------------|-------------|
| Cash and cash equivalents | \$32,470 | \$(1,422 |) \$ 7,033 | \$- | \$38,081 |
| Accounts receivable, less allowances | 606 | 76,816 | 502 | - | 77,924 |
| Intercompany receivables | - | 273,413 | - | (273,413 |) - |
| Inventories - net | - | 8,032 | 636 | - | 8,668 |
| Current deferred income taxes | (650 |) 13,059 | 131 | - | 12,540 |
| Prepaid income taxes | (114 |) 1,689 | 556 | - | 2,131 |
| Prepaid expenses | 503 | 10,757 | 149 | - | 11,409 |
| Total current assets | 32,815 | 382,344 | 9,007 | (273,413 |) 150,753 |
| Investments of deferred compensation plans | - | - | 31,629 | - | 31,629 |
| Properties and equipment, at cost, less accumulated depreciation | 11,641 | 68,755 | 2,555 | - | 82,951 |
| Identifiable intangible assets less accumulated amortization | - | 58,262 | - | - | 58,262 |
| Goodwill | - | 456,183 | 4,450 | - | 460,633 |
| Other assets | 7,616 | 1,552 | 2,509 | - | 11,677 |
| Investments in subsidiaries | 793,277 | 21,148 | - | (814,425 |) - |
| Total assets | \$845,349 | \$988,244 | \$ 50,150 | \$(1,087,838 |) \$795,905 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | | | | |
|--|-----------|------------|-----------|--------------|-------------|
| Accounts payable | \$(683 |) \$48,490 | \$ 418 | \$- | \$48,225 |
| Intercompany payables | 269,042 | - | 4,371 | (273,413 |) - |
| Income taxes | - | - | 90 | - | 90 |
| Accrued insurance | 489 | 36,658 | - | - | 37,147 |
| Accrued compensation | 3,828 | 36,655 | 604 | - | 41,087 |
| Other current liabilities | 1,719 | 15,728 | 1,404 | - | 18,851 |
| Total current liabilities | 274,395 | 137,531 | 6,887 | (273,413 |) 145,400 |
| Deferred income taxes | (12,330 |) 51,601 | (9,808 |) - | 29,463 |
| Long-term debt | 166,784 | - | - | - | 166,784 |
| Deferred compensation liabilities | - | - | 30,693 | - | 30,693 |
| Other liabilities | 2,816 | 4,630 | 2,435 | - | 9,881 |
| Stockholders' equity | 413,684 | 794,482 | 19,943 | (814,425 |) 413,684 |
| Total liabilities and stockholders' equity | \$845,349 | \$988,244 | \$ 50,150 | \$(1,087,838 |) \$795,905 |

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For the three
months ended
September 30,
2012

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidat |
|--|-----------|---------------------------|-------------------------------|------------------------------|------------|
| Continuing Operations | | | | | |
| Service revenues and sales | \$ - | \$ 347,384 | \$ 6,969 | \$ - | 35 |
| Cost of services provided and goods sold | - | 252,688 | 3,922 | - | 25 |
| Selling, general and administrative expenses | 5,991 | 43,992 | 2,972 | - | 5 |
| Depreciation | 237 | 6,099 | 221 | - | |
| Amortization | 486 | 649 | - | - | |
| Other operating expenses | - | 1,126 | - | - | |
| Total costs and expenses | 6,714 | 304,554 | 7,115 | - | 31 |
| Income/ (loss) from operations | (6,714) | 42,830 | (146) | - | 3 |
| Interest expense | (3,517) | (211) | (15) | - | (|
| Other (expense)/income - net | 4,450 | (4,184) | 1,574 | - | |
| Income/ (loss) before income taxes | (5,781) | 38,435 | 1,413 | - | 3 |
| Income tax (provision)/ benefit | 1,877 | (14,560) | (539) | - | (1 |
| Equity in net income of subsidiaries | 24,749 | 885 | - | (25,634) | |
| Net income | \$ 20,845 | \$ 24,760 | \$ 874 | \$ (25,634) | 2 |

For the three
months ended
September 30,
2011

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidat |
|-------------------------------|--------|---------------------------|-------------------------------|------------------------------|------------|
| Continuing Operations | | | | | |
| Service revenues and sales | \$ - | \$ 334,937 | \$ 6,502 | \$ - | 34 |
| | - | 241,604 | 3,459 | - | 24 |

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| | | | | | |
|--|-----------|-----------|---------|-------------|----|
| Cost of services provided and goods sold | | | | | |
| Selling, general and administrative expenses | 5,678 | 42,595 | (655) | - | 4 |
| Depreciation | 235 | 5,870 | 208 | - | |
| Amortization | 467 | 667 | - | - | |
| Total costs and expenses | 6,380 | 290,736 | 3,012 | - | 30 |
| Income/ (loss) from operations | (6,380) | 44,201 | 3,490 | - | 4 |
| Interest expense | (3,361) | (194) | - | - | (|
| Other (expense)/income - net | 4,379 | (4,301) | (2,013) | - | (|
| Income/ (loss) before income taxes | (5,362) | 39,706 | 1,477 | - | 3 |
| Income tax (provision)/ benefit | 1,677 | (15,029) | (582) | - | (1 |
| Equity in net income of subsidiaries | 25,572 | 953 | - | (26,525) | |
| Net income | \$ 21,887 | \$ 25,630 | \$ 895 | \$ (26,525) | 2 |

For the nine months ended September 30, 2012

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidat |
|--|----------|------------------------|----------------------------|---------------------------|------------|
| Continuing Operations | | | | | |
| Service revenues and sales | \$ - | \$ 1,040,015 | \$ 21,451 | \$ - | 1,06 |
| Cost of services provided and goods sold | - | 759,549 | 11,874 | - | 77 |
| Selling, general and administrative expenses | 17,124 | 131,695 | 7,073 | - | 15 |
| Depreciation | 704 | 17,816 | 658 | - | 1 |
| Amortization | 1,437 | 1,938 | - | - | |
| Other operating expenses | - | 1,126 | - | - | |
| Total costs and expenses | 19,265 | 912,124 | 19,605 | - | 95 |
| Income/ (loss) from operations | (19,265) | 127,891 | 1,846 | - | 11 |
| Interest expense | (10,437) | (551) | (44) | - | (1 |

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| | | | | | |
|--|-----------|-----------|----------|-------------|-----|
| Other (expense)/income - net | 13,196 | (12,982) | 2,751 | - | |
| Income/ (loss) before income taxes | (16,506) | 114,358 | 4,553 | - | 10 |
| Income tax (provision)/ benefit | 5,376 | (43,442) | (1,775) | - | (3) |
| Equity in net income of subsidiaries | 73,694 | 2,857 | - | (76,551) | |
| Net income | \$ 62,564 | \$ 73,773 | \$ 2,778 | \$ (76,551) | 6 |

For the nine
months ended
September 30,
2011

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidat |
|--|-----------|---------------------------|-------------------------------|------------------------------|------------|
| Continuing Operations | | | | | |
| Service revenues and sales | \$ - | \$ 985,500 | \$ 20,217 | \$ - | 1,00 |
| Cost of services provided and goods sold | - | 711,335 | 10,783 | - | 72 |
| Selling, general and administrative expenses | 17,936 | 130,617 | 5,143 | - | 15 |
| Depreciation | 711 | 17,651 | 597 | - | 1 |
| Amortization | 1,287 | 1,956 | - | - | |
| Total costs and expenses | 19,934 | 861,559 | 16,523 | - | 89 |
| Income/ (loss) from operations | (19,934) | 123,941 | 3,694 | - | 10 |
| Interest expense | (9,814) | (446) | - | - | (1 |
| Other (expense)/income - net | 12,011 | (11,918) | 788 | - | |
| Income/ (loss) before income taxes | (17,737) | 111,577 | 4,482 | - | 9 |
| Income tax (provision)/ benefit | 5,863 | (42,164) | (1,747) | - | (3 |
| Equity in net income of subsidiaries | 72,148 | 2,861 | - | (75,009) | |
| Net income | \$ 60,274 | \$ 72,274 | \$ 2,735 | \$ (75,009) | 6 |

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For the nine months ended September 30, 2012

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidated |
|---|-----------|---------------------------|-------------------------------|--------------|
| Cash Flow from Operating Activities: | | | | |
| Net cash provided by operating activities | \$ 1,486 | \$ 74,206 | \$ 1,645 | \$ 77,337 |
| Cash Flow from Investing Activities: | | | | |
| Capital expenditures | (196) | (25,491) | (802) | (26,489) |
| Business combinations, net of cash acquired | - | (5,900) | - | (5,900) |
| Other sources/(uses) - net | 201 | 359 | (32) | 528 |
| Net cash used by investing activities | 5 | (31,032) | (834) | (31,861) |
| Cash Flow from Financing Activities: | | | | |
| Change in cash overdrafts payable | (4,580) | 1,281 | - | (3,299) |
| Change in intercompany accounts | 40,489 | (40,022) | (467) | - |
| Dividends paid to shareholders | (9,641) | - | - | (9,641) |
| Purchases of treasury stock | (14,960) | - | (87) | (15,047) |
| Proceeds from exercise of stock options | 10,483 | - | - | 10,483 |
| Realized excess tax benefit on share based compensation | 2,714 | - | - | 2,714 |
| Other sources/(uses) - net | (17) | (1) | 547 | 529 |
| Net cash provided/(used) by financing activities | 24,488 | (38,742) | (7) | (14,261) |
| Net increase in cash and cash equivalents | 25,979 | 4,432 | 804 | 31,215 |
| Cash and cash equivalents at beginning of year | 32,470 | (1,422) | 7,033 | 38,081 |
| Cash and cash equivalents at end of period | \$ 58,449 | \$ 3,010 | \$ 7,837 | \$ 69,296 |

For the nine months ended September 30, 2011

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidated |
|---|------------|---------------------------|-------------------------------|--------------|
| Cash Flow from Operating Activities: | | | | |
| Net cash provided by operating activities | \$ 21,558 | \$ 83,903 | \$ 2,475 | \$ 107,936 |
| Cash Flow from Investing Activities: | | | | |
| Capital expenditures | (23) | (22,378) | (1,058) | (23,459) |
| Business combinations, net of cash acquired | - | (3,689) | - | (3,689) |
| Other sources/(uses) - net | (150) | (713) | 34 | (829) |
| Net cash used by investing activities | (173) | (26,780) | (1,024) | (27,977) |
| Cash Flow from Financing Activities: | | | | |
| Purchases of treasury stock | (110,221) | - | (67) | (110,288) |
| Change in cash overdrafts payable | 208 | 2,089 | - | 2,297 |
| Change in intercompany accounts | 60,028 | (59,090) | (938) | - |
| Proceeds from exercise of stock options | 7,979 | - | - | 7,979 |
| Dividends paid to shareholders | (9,393) | - | - | (9,393) |
| Debt issuance costs | (2,723) | - | - | (2,723) |
| Realized excess tax benefit on share based compensation | 3,368 | - | - | 3,368 |
| Other sources/(uses) - net | (5) | - | 231 | 226 |
| Net cash used by financing activities | (50,759) | (57,001) | (774) | (108,534) |
| Net increase/(decrease) in cash and cash equivalents | (29,374) | 122 | 677 | (28,575) |
| Cash and cash equivalents at beginning of year | 45,324 | (1,571) | 6,164 | 49,917 |
| Cash and cash equivalents at end of period | \$ 15,950 | \$ (1,449) | \$ 6,841 | \$ 21,342 |

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

Executive Summary

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

The following is a summary of the key operating results (in thousands except per share amounts):

| | Three months ended September 30, | | Nine months ended September 30, | | |
|-----------------------------------|----------------------------------|-----------|---------------------------------|-------------|---|
| | 2012 | 2011 | 2012 | 2011 | |
| Service revenues and sales | \$354,353 | \$341,439 | \$1,061,466 | \$1,005,717 | |
| Net income | \$20,845 | \$21,887 | \$62,564 | \$60,274 | |
| Diluted EPS | \$1.07 | \$1.04 | \$3.23 | \$2.82 | |
| Adjusted EBITDA | \$49,020 | \$49,556 | \$143,533 | \$141,831 | |
| Adjusted EBITDA as a % of revenue | 13.8 | % 14.5 | % 13.5 | % 14.1 | % |

Earnings before interest, taxes and depreciation and amortization ("EBITDA") and Adjusted EBITDA are not measures derived in accordance with GAAP. We use Adjusted EBITDA as a measure of earnings for our long-term incentive plan awards. We provide EBITDA and Adjusted EBITDA to help readers evaluate our operating results, compare our operating performance with that of similar companies that have different capital structures and help evaluate our ability to meet future debt service, capital expenditure and working capital requirements. Our EBITDA and Adjusted EBITDA should not be considered in isolation or as a substitute for comparable measures presented in accordance with GAAP. A reconciliation of our net income to our EBITDA and Adjusted EBITDA is presented on pages 30 and 31.

For the three months ended September 30, 2012, the increase in consolidated service revenues and sales was driven by a 5.9% increase at VITAS partially offset by a 2.4% decrease at Roto-Rooter. The increase in service revenues at VITAS was a result of increased average daily census ("ADC") of 4.5%, driven by an increase in admissions of 4.4%, increased discharges of 4.5% and Medicare price increases of approximately 2.5%. The decrease in service revenues at Roto-Rooter was driven by a 3.0% decrease in job count offset by an increase in price and mix shift. Consolidated net income decreased 4.8%. Diluted EPS increased 2.9% as a result of a lower number of shares outstanding. Adjusted EBITDA as a percent of revenue decreased 70 basis points as a result of the decrease in service revenues at Roto-Rooter. See page 32 for additional VITAS operating metrics.

For the nine months ended September 30, 2012, the increase in consolidated service revenues and sales was driven by a 8.5% increase at VITAS partially offset by a 2.4% decrease at Roto-Rooter. The increase in service revenues at VITAS was a result of increased average daily census ("ADC") of 5.5%, driven by an increase in admissions of 3.9%, increased discharges of 4.3% and Medicare price increases of approximately 2.5%. The decrease in service revenues at Roto-Rooter was driven by a 3.4% decrease in job count partially offset by a 2.0% price and mix shift increase. Consolidated net income increased 3.8%. Diluted EPS increased 14.5% as a result of the increase in net income and a lower number of shares outstanding. Adjusted EBITDA as a percent of revenue decreased 60 basis points as a result of the decrease in service revenues at Roto-Rooter. See page 32 for additional VITAS operating metrics.

VITAS expects to achieve full-year 2012 revenue growth, prior to Medicare cap, of 7.5% to 8.0%. Admissions are estimated to increase approximately 4.0% to 4.5%. Adjusted EBITDA margin, prior to Medicare cap, is estimated to be 14.5% to 15.0%. Roto-Rooter expects full-year 2012 revenue 2.0% below the prior year. The revenue estimate is a result of increased pricing of approximately 1.5%, a favorable mix shift to higher revenue jobs, with job count estimated to decrease 3.0% to 4.0%. Adjusted EBITDA margin for 2012 is estimated to be in the range of 15.8% to 16.3%. We anticipate that our operating income and cash flows will be sufficient to operate our businesses and meet any commitments for the foreseeable future.

Financial Condition

Liquidity and Capital Resources

Material changes in the balance sheet accounts from December 31, 2011 to September 30, 2012 include the following:

- A \$23.2 million increase in accounts receivable related to the timing of receipts.
- A \$7.2 million increase in properties and equipment due to the opening of the Florida home medical equipment location, a data center relocation and the opening of in-patient units.
 - A \$5.2 million increase in goodwill due to Roto-Rooter acquisitions.
 - A \$4.2 million decrease in accounts payable related to timing of payments.
- A \$3.0 million decrease in accrued compensation related to the timing of payments of incentive compensation.

Net cash provided by operating activities decreased by \$30.6 million due primarily to the increase in accounts receivable and the decrease in accounts payable. Management continually evaluates cash utilization alternatives, including share repurchase, debt repurchase, acquisitions and increased dividends to determine the most beneficial use of available capital resources.

We have issued \$29.2 million in standby letters of credit as of September 30, 2012, for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of September 30, 2012, we have approximately \$320.8 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the \$150 million expansion feature. Management believes its liquidity and sources of capital are satisfactory for the Company's needs in the foreseeable future.

Commitments and Contingencies

Collectively, the terms of our credit agreements require us to meet various financial covenants, to be tested quarterly. We are in compliance with all financial and other debt covenants as of September 30, 2012 and anticipate remaining in compliance throughout 2012.

The VITAS segment of the Company's business operates in a heavily-regulated industry. As a result, the Company is subjected to inquiries and investigations by various government agencies, as well as to lawsuits, including qui tam actions. The following sections describe the various ongoing lawsuits and investigations of which the Company is currently aware. It is not possible at this time for us to estimate either the timing or outcome of any of those matters, or whether any potential loss, or range of potential losses, is probable or estimable.

On March 1, 2010 Anthony Morangelli and Frank Ercole filed a class action lawsuit in federal district court for the Eastern District of New York, Morangelli et al. v. Chemed Corporation, et al., 1-10-cv-00876-BMC, seeking unpaid minimum wages and overtime service technician compensation from Roto-Rooter and Chemed. They also seek payment of penalties, interest and plaintiffs' attorney fees. We contest these allegations. In September 2010, the Court conditionally certified a nationwide class of service technicians, excluding those who signed dispute resolution agreements in which they agreed to arbitrate claims arising out of their employment.

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, Bernadette Santos, et al. v. Vitas Healthcare Corporation of California, BC359356. This case alleges failure to pay overtime and failure to provide meal and rest periods to a purported class of California admissions nurses, chaplains and sales representatives. The case seeks payment of penalties, interest and Plaintiffs' attorney fees. We contest these allegations. In December 2009, the trial court denied Plaintiffs' motion for class certification. In July 2011, the Court of Appeals affirmed denial of class certification on the travel time, meal and rest period claims, and reversed the trial court's denial on the off-the-clock and sales representation exemption claims. Plaintiffs filed an appeal of this decision. In September 2012, in response to an order of reconsideration, the Court of Appeals reiterated its previous rulings.

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

Regardless of the outcome of any of the preceding matters, litigation adversely affects us through defense costs, diversion of management time, and related publicity.

In April 2005, VITAS received a subpoena from the Office of the Inspector General (“OIG”) of the U.S. Department of Health and Human Services requesting that VITAS produce various categories of documents from 1998 through the date of the subpoena in connection with an investigation into an alleged failure to appropriately bill Medicare and Medicaid for hospice services. The requested categories of documents included patient medical and billing records for 320 past and then current patients from VITAS’s three largest programs; policy and procedure manuals; information concerning patient admissions, certifications, discharges, and lengths of stay; and census information. In the third quarter of 2005, the OIG requested additional information from us. In May 2006, VITAS received another subpoena from OIG seeking certain information concerning employees and their compensation from 1999 through 2004. In 2004, two former VITAS employees filed a related qui tam suit in U.S. District Court for the Southern District of Florida, United States, et al. ex rel. Barys v. Vitas Healthcare Corp., 1:04-cv-21431. The complaint asserted violations of the federal False Claims Act against VITAS and certain of its affiliates, based on the alleged fraudulent admissions and recertification of ineligible patients. In July 2007, the district court dismissed the suit with prejudice. The U.S. Court of Appeals for the Eleventh Circuit affirmed the dismissal in November 2008. In March 2009, VITAS received a letter from the Department of Justice indicating that its investigation of VITAS’s Florida programs is ongoing.

In July 2012, VITAS received an investigative subpoena from the Florida Attorney General seeking documents previously produced in the course of prior government investigations as well as, for the period January 1, 2007 through the date of production, billing records and procedures; information concerning business results, plans, and strategies; documents concerning patient eligibility for hospice care; and certain information concerning employees and their compensation. We are conferring with the Attorney General regarding those document requests.

In May 2009, VITAS received an administrative subpoena from the U.S. Department of Justice requesting that VITAS deliver to OIG various categories of documents for its headquarters and Texas programs from January 1, 2003 through the date of the subpoena. The requested categories included policy and procedure manuals and information concerning Medicare and Medicaid billing and the provision of hospice services; patient medical records; information concerning business plans, strategies, and results and VITAS’s affiliated entities and referral sources; and certain information concerning employees and their compensation. In August 2009, the OIG selected medical records for 59 past and current patients from a Texas program for review. In September 2010, VITAS received a second administrative subpoena from the Department of Justice seeking electronic documents of 10 current and former employees. In April 2011, the U.S. Attorney provided the Company with a copy of a qui tam complaint filed under seal in the U.S. District Court for the Northern District of Texas, United States, et al. ex rel. Rehfeldt v. Vitas Healthcare Corp., 3:09-cv-0203. In November 2011, the complaint was unsealed. The U.S. Attorney and the Attorney General for the State of Texas filed notices in November 2011 stating that they had decided not to intervene in the case at that time but indicating that they continue to investigate the allegations. The complaint asserts violations of the federal False Claims Act and the Texas Medicaid Fraud Prevention Act based on the alleged admission and re-certification of ineligible patients, conspiracy to admit ineligible patients, and backdating patient revocations. The suit was brought by Michael Rehfeldt, a former general manager of VITAS’s San Antonio program, against VITAS, the San Antonio program’s former Regional Vice-President, Keith Becker, and former Medical Director, Justo Cisneros, and their respective then-current employers: Wellmed Medical Management, Care Level Management, LLC, Inspiris Hospice, LLC, and Inspiris, Inc. The plaintiff dismissed all claims against their then-current employers in March and April of 2012. The complaint has yet to be served on any of the VITAS entities.

In February 2010, VITAS received a companion civil investigative demand (“CID”) from the Texas Attorney General seeking documents from January 1, 2002 through the date of the CID, and interrogatory responses in connection with a related investigation of possible fraudulent submission of Medicaid claims for non-qualifying patients and

fraudulent shifting of costs from VITAS to the State of Texas and the United States. The CID requested similar information sought by the Department of Justice's May 2009 administrative subpoena, together with information concerning record-keeping and retention practices, and medical records concerning 117 patients. In September 2010, VITAS received a second CID from the Texas Attorney General seeking additional documents concerning business plans and results, revocation forms for certain patients, and electronic documents of 10 current and former employees.

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In June 2011, the U.S. Attorney provided the Company with a partially unsealed qui tam complaint filed under seal in the U.S. District Court for the Western District of Texas, United States, et al. ex rel. Urick v. Vitas HME Solutions, Inc. et al., 5:08-cv-0663. The U.S. Attorney filed a notice in May 2012 stating that it had decided not to intervene in the case at that time but indicating that it continues to investigate the allegations. In June 2012, the complaint was unsealed. The complaint asserts violations of the federal False Claims Act and the Texas Medicaid Fraud Prevention Act based on allegations of a conspiracy to submit to Medicare and Medicaid false claims involving hospice services for ineligible patients, unnecessary medical supplies, failing to satisfy certain prerequisites for payment, and altering patient records, including backdating patient revocations. The suit was brought by Barbara Urick, a registered nurse in VITAS's San Antonio program, against VITAS, certain of its affiliates, and several former VITAS employees, including physicians Justo Cisneros and Antonio Cavazos and nurses Sally Schwenk, Diane Anest, and Edith Reed. In September 2012, the plaintiff dismissed all claims against the individual defendants. The complaint has yet to be served on any of the VITAS entities.

Also in June 2011, the U.S. Attorney provided the Company with a partially unsealed qui tam complaint filed under seal in the U.S. District Court for the Northern District of Illinois, United States, et al. ex rel. Spottiswood v. Chemed Corp., 1:07-cv-4566. In April 2012, the complaint was unsealed. The U.S. Attorney and Attorney General for the State of Illinois filed notices in April and May 2012, respectively, stating that they had decided not to intervene in the case at that time but indicating that they continue to investigate the allegations. The complaint asserts violations of the federal False Claims Act and the Illinois Whistleblower Reward and Protection Act based on allegations that VITAS fraudulently billed Medicare and Medicaid for providing unwarranted continuous care services. The suit was brought by Laura Spottiswood, a former part-time pool registered nurse at VITAS, against Chemed, VITAS, and a VITAS affiliate. The complaint has yet to be served.

In June 2012, VITAS received an administrative subpoena from OIG in connection with an investigation of possible improper claims submitted to the Medicare and Medicaid programs. It seeks production of various categories of documents concerning the provision of hospice services, for headquarters and its Southern California programs, for the period January 1, 2007 through the date of the subpoena. The categories of documents include policy, procedure and training manuals; documents concerning patient eligibility for hospice care, including referrals, admissions, certifications, revocations and census information; documents concerning claims submitted to government programs; certain information concerning employees and their compensation; and documents concerning VITAS's financial performance. In August 2012, the OIG also subpoenaed medical records for 268 patients from three Southern California programs. We are conferring with the U.S. Attorney's Office for the Central District of California regarding those document requests.

In September 2012, VITAS received an administrative subpoena from OIG seeking production of medical records for 102 patients in 10 states who received continuous care between 2004 and 2009. We are conferring with OIG regarding those requests.

The costs to comply with these investigations were not material for any period presented. Regardless of the outcome of any of the preceding matters, responding to the subpoenas and dealing with the various regulatory agencies can adversely affect us through defense costs, diversion of management time, and related publicity.

Results of Operations

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

Our service revenues and sales for the third quarter of 2012 increased 3.8% versus services and sales revenues for the third quarter of 2011. Of this increase, \$15.0 million was attributable to VITAS partially offset by a \$2.1 million decrease at Roto-Rooter. The following chart shows the components of those changes (in thousands):

Increase/(Decrease)

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| | Amount | Percent |
|-----------------------|-----------|---------|
| VITAS | | |
| Routine homecare | \$ 13,609 | 7.4 |
| Continuous care | 2,031 | 5.1 |
| General inpatient | (210) | (0.7) |
| Medicare cap | (384) | (100.0) |
| Roto-Rooter | | |
| Plumbing | (1,119) | (2.6) |
| Drain cleaning | (133) | (0.4) |
| Contractor Operations | 368 | 5.6 |
| Other | (1,248) | (19.0) |
| Total | \$ 12,914 | 3.8 |

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The increase in VITAS' revenues for the third quarter of 2012 versus the third quarter of 2011 was a result of increased ADC of 4.5% driven by an increase in admissions of 4.4%, increased discharges of 4.5% and Medicare reimbursement rate increases of approximately 2.5%. The ADC increase was driven by a 4.7% increase in routine homecare, an increase of 0.9% in general inpatient and an increase of a 3.7% in continuous care. In excess of 90% of VITAS' service revenues for the period were from Medicare and Medicaid.

The decrease in plumbing revenues for the third quarter of 2012 versus 2011 is attributable to a 1.8% decrease in job count and a 0.4% decrease in the average price per job. Our excavation job count was essentially flat when compared to 2011. Drain cleaning revenues for the third quarter of 2012 versus 2011 reflect a 3.5% decrease in the number of jobs performed partially offset by a 3.4% increase in the price per job. The decrease in the Other category relates mainly to the shut-down of Roto-Rooter's one remaining HVAC operation, as discussed in Footnote 17 to the unaudited consolidated financial statements. Contractor operations revenue increased 5.6% for the third quarter of 2012.

The consolidated gross margin was 27.6% in the third quarter of 2012 as compared with 28.2% in the third quarter of 2011. On a segment basis, VITAS' gross margin was 22.2% in the third quarter of 2012 and 22.4% in the third quarter of 2011. The Roto-Rooter segment's gross margin was 44.3% for the third quarter of 2012 as compared with 45.0% for the third quarter of 2011. The decrease in Roto-Rooter's gross margin is primarily the result of increased medical costs combined with lower revenue.

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

| | Three months ended September 30, | |
|---|-------------------------------------|----------|
| | 2012 | 2011 |
| SG&A expenses before the impact of market gains of deferred compensation plans | \$51,379 | \$49,629 |
| Impact of market value gains/(losses) on liabilities held in deferred compensation trusts | 1,576 | (2,011) |
| Total SG&A expenses | \$52,955 | \$47,618 |

Normal salary increases and revenue related expense increases between periods account for the 3.5% increase in SG&A expenses before long-term incentive compensation and the impact of market gains of deferred compensation plans.

Interest expense increased 5.3% between periods primarily as a result of the increase in amortization of bond discount expense.

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

| | Three months ended September 30, | |
|--|-------------------------------------|------------|
| | 2012 | 2011 |
| Market value gains/(losses) on assets held in deferred compensation trusts | \$1,576 | \$(2,011) |
| Loss on disposal of property and equipment | (80) | (79) |
| Interest income | 291 | 74 |
| Other | 53 | 81 |
| Total other income/(expense) - net | \$1,840 | \$(1,935) |

Our effective income tax rate decreased to 38.8% in the third quarter of 2012 from 38.9% when compared with the third quarter of 2011.

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

| | Three Months Ended September 30, | |
|---|----------------------------------|-------------|
| | 2012 | 2011 |
| VITAS | | |
| Legal expenses of OIG investigation | \$ (300) | \$ (131) |
| Acquisition expenses | (1) | (2) |
| Roto-Rooter | | |
| HVAC shut-down costs | (649) | - |
| Expenses of class action litigation | (70) | (467) |
| Acquisition expenses | (52) | - |
| Corporate | | |
| Stock option expense | (1,516) | (1,523) |
| Noncash impact of change in accounting for convertible debt | (1,272) | (1,177) |
| Expenses of class action litigation | (44) | - |
| Total | \$ (3,904) | \$ (3,300) |

Three months ended September 30, 2012 versus 2011 - Segment Results

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

| | Increase/(Decrease) | |
|-------------|---------------------|---------|
| | Amount | Percent |
| VITAS | \$970 | 4.6 |
| Roto-Rooter | (1,871) | (23.3) |
| Corporate | (141) | (2.0) |
| | \$ (1,042) | (4.8) |

Results of Operations

Nine months ended September 30, 2012 versus 2011 - Consolidated Results

Our service revenues and sales for the first nine months of 2012 increased 5.5% versus services and sales revenues for the first nine months of 2011. Of this increase, \$62.3 million was attributable to VITAS partially offset by a \$6.6 million decrease at Roto-Rooter. The following chart shows the components of those changes (in thousands):

| | Increase/(Decrease) | |
|-----------------------|---------------------|---------|
| | Amount | Percent |
| VITAS | | |
| Routine homecare | \$ 47,637 | 9.0 |
| Continuous care | 9,531 | 8.1 |
| General inpatient | 3,620 | 4.4 |
| Medicare cap | 1,550 | 150.9 |
| Roto-Rooter | | |
| Plumbing | (3,058) | (2.3) |
| Drain cleaning | (2,275) | (2.2) |
| Contractor Operations | 820 | 4.2 |
| Other | (2,076) | (10.3) |
| Total | \$ 55,749 | 5.5 |

The increase in VITAS' revenues for the first nine months of 2012 versus the first nine months of 2011 was a result of increased ADC of 5.5% driven by an increase in admissions of 3.9%, increased discharges of 4.3% and Medicare reimbursement rate increases of approximately 2.5%. The ADC increase was driven by a 5.6% increase in routine homecare, an increase of 3.3% in general inpatient and an increase of a 4.8% in continuous care. The reversal of previously recorded Medicare cap reserves increased 150.9% as a result of improving admissions trends. In excess of 90% of VITAS' service revenues for the period were from Medicare and Medicaid.

The decrease in plumbing revenues for the first nine months of 2012 versus 2011 is attributable to a 0.2% decrease in the number of jobs performed as well as a 1.2% decrease in the average price per job. Our excavation job count increased by 5.6% compared to 2011. Drain cleaning revenues for the first nine months of 2012 versus 2011 reflect a 5.0% decrease in the number of jobs performed partially offset by a 3.7% increase in the price per job. The decrease in the Other category relates mainly of the shut-down of Roto-Rooter's one remaining HVAC operation, as discussed in Footnote 17 to the unaudited consolidated financial statements. Contractor operations revenue increased 4.2% for the first nine months of 2012.

The consolidated gross margin was 27.3% for the first nine months of 2012 as compared with 28.2% for the first nine months of 2011. On a segment basis, VITAS' gross margin was 21.7% for the first nine months of 2012 and 22.0% for the first nine months of 2011. The Roto-Rooter segment's gross margin was 44.1% for the first nine months of 2012 as compared with 44.7% for the first nine months of 2011. The decrease in Roto-Rooter's gross margin is primarily the result of increased medical costs combined with lower revenue.

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

| | Nine months ended September 30, | |
|--|---------------------------------|-----------|
| | 2012 | 2011 |
| SG&A expenses before long-term incentive compensation and the impact of market gains and losses of deferred compensation plans | \$153,131 | \$149,888 |
| Long-term incentive compensation | - | 3,012 |
| Impact of market value gains on liabilities held in deferred compensation trusts | 2,761 | 796 |
| Total SG&A expenses | \$155,892 | \$153,696 |

Normal salary increases and revenue related expense increases between periods account for the 2.2% increase in SG&A expenses before long-term incentive compensation and the impact of market gains of deferred compensation plans.

Interest expense increased 7.5% between periods as a result of the debt refinancing that took place in the first quarter of 2011 and to the increase in amortization of bond discount expense.

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

| | Nine months ended September 30, | |
|---|---------------------------------|-------|
| | 2012 | 2011 |
| Market value gains on assets held in deferred compensation trusts | \$2,761 | \$796 |
| Loss on disposal of property and equipment | (228) | (68) |
| Interest income | 401 | 197 |
| Other | 31 | (44) |
| Total other income/(expense) - net | \$2,965 | \$881 |

Our effective income tax rate increased to 38.9% for the first nine months of 2012 from 38.7% when compared with the first nine months of 2011.

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

| | Nine Months Ended September 30, | |
|---|------------------------------------|--------------|
| | 2012 | 2011 |
| VITAS | | |
| Legal expenses of OIG investigation | \$ (465) | \$ (749) |
| Acquisition expenses | (1) | (73) |
| Roto-Rooter | | |
| HVAC shut-down costs | (649) | - |
| Expenses of class action litigation | (512) | (881) |
| Acquisition expenses | (73) | 4 |
| Corporate | | |
| Stock option expense | (4,243) | (4,366) |
| Noncash impact of change in accounting for convertible debt | (3,744) | (3,464) |
| Expenses of securities litigation | (168) | - |
| Long-term incentive compensation | - | (1,880) |
| Total | \$ (9,855) | \$ (11,409) |

Nine months ended September 30, 2012 versus 2011 - Segment Results

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

| | Increase/(Decrease) | |
|-------------|---------------------|---------|
| | Amount | Percent |
| VITAS | \$4,315 | 7.5 |
| Roto-Rooter | (3,903) | (15.2) |
| Corporate | 1,878 | 8.2 |
| | \$2,290 | 3.8 |

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

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|-----------|-------------|-----------|------------------------|
| 2012 (a) | | | | |
| Service revenues and sales | \$267,990 | \$86,363 | \$- | \$354,353 |
| Cost of services provided and goods sold | 208,473 | 48,137 | - | 256,610 |
| Selling, general and administrative expenses | 20,148 | 25,350 | 7,457 | 52,955 |
| Depreciation | 4,333 | 2,093 | 131 | 6,557 |
| Amortization | 489 | 160 | 486 | 1,135 |
| Other operating expenses | - | 1,126 | - | 1,126 |
| Total costs and expenses | 233,443 | 76,866 | 8,074 | 318,383 |
| Income/(loss) from operations | 34,547 | 9,497 | (8,074) | 35,970 |
| Interest expense | (62) | (150) | (3,531) | (3,743) |
| Intercompany interest income/(expense) | 795 | 396 | (1,191) | - |
| Other income/(expense)—net | 176 | 63 | 1,601 | 1,840 |
| Income/(expense) before income taxes | 35,456 | 9,806 | (11,195) | 34,067 |
| Income taxes | (13,516) | (3,661) | 3,955 | (13,222) |
| Net income/(loss) | \$21,940 | \$6,145 | \$(7,240) | \$20,845 |

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

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|---|---------|-------------|-----------|------------------------|
| Pretax benefit/(cost): | | | | |
| Stock option expense | \$- | \$- | \$(2,397) | \$(2,397) |
| Noncash impact of accounting for convertible debt | - | - | (2,011) | (2,011) |
| Expenses of class action litigation | - | (116) | - | (116) |
| Expenses of securities litigation | - | - | (68) | (68) |
| Acquisition expenses | (2) | (85) | - | (87) |
| Legal expenses of OIG investigation | (483) | - | - | (483) |
| HVAC shut down costs | - | (1,126) | - | (1,126) |
| Total | \$(485) | \$(1,327) | \$(4,476) | \$(6,288) |

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|---|---------|-------------|-----------|------------------------|
| After-tax benefit/(cost): | | | | |
| Stock option expense | \$- | \$- | \$(1,516) | \$(1,516) |
| Noncash impact of accounting for convertible debt | - | - | (1,272) | (1,272) |
| Expenses of class action litigation | - | (70) | - | (70) |
| Expenses of securities litigation | - | - | (44) | (44) |
| Acquisition expenses | (1) | (52) | - | (53) |
| Legal expenses of OIG investigation | (300) | - | - | (300) |
| HVAC shut down costs | - | (649) | - | (649) |
| Total | \$(301) | \$(771) | \$(2,832) | \$(3,904) |

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

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|------------|-------------|-------------|------------------------|
| 2011 (a) | | | | |
| Service revenues and sales | \$ 252,944 | \$ 88,495 | \$ - | \$ 341,439 |
| Cost of services provided and goods sold | 196,407 | 48,656 | - | 245,063 |
| Selling, general and administrative expenses | 18,945 | 25,057 | 3,616 | 47,618 |
| Depreciation | 4,123 | 2,058 | 132 | 6,313 |
| Amortization | 510 | 156 | 468 | 1,134 |
| Total costs and expenses | 219,985 | 75,927 | 4,216 | 300,128 |
| Income/(loss) from operations | 32,959 | 12,568 | (4,216) | 41,311 |
| Interest expense | (62) | (132) | (3,361) | (3,555) |
| Intercompany interest income/(expense) | 834 | 451 | (1,285) | - |
| Other income/(expense)—net | 62 | (7) | (1,990) | (1,935) |
| Income/(expense) before income taxes | 33,793 | 12,880 | (10,852) | 35,821 |
| Income taxes | (12,823) | (4,864) | 3,753 | (13,934) |
| Net income/(loss) | \$ 20,970 | \$ 8,016 | \$ (7,099) | \$ 21,887 |

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

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|---|-----------|-------------|-------------|------------------------|
| Pretax benefit/(cost): | | | | |
| Stock option expense | \$ - | \$ - | \$ (2,408) | \$ (2,408) |
| Noncash impact of accounting for convertible debt | - | - | (1,861) | (1,861) |
| Expenses of class action litigation | - | (770) | - | (770) |
| Acquisition expenses | (2) | - | - | (2) |
| Legal expenses of OIG investigation | (212) | - | - | (212) |
| Total | \$ (214) | \$ (770) | \$ (4,269) | \$ (5,253) |

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|---|-------|-------------|-------------|------------------------|
| After-tax benefit/(cost): | | | | |
| Stock option expense | \$ - | \$ - | \$ (1,523) | \$ (1,523) |
| Noncash impact of accounting for convertible debt | - | - | (1,177) | (1,177) |
| Expenses of class action litigation | - | (467) | - | (467) |

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| | | | | |
|-------------------------------------|-----------|-----------|-------------|-------------|
| Acquisition expenses | (2) | - | - | (2) |
| Legal expenses of OIG investigation | (131) | - | - | (131) |
| Total | \$ (133) | \$ (467) | \$ (2,700) | \$ (3,300) |

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

| | VITAS | Roto-Router | Corporate | Chemed Consolidated |
|--|-----------|-------------|------------|------------------------|
| 2012 (a) | | | | |
| Service revenues and sales | \$794,050 | \$267,416 | \$- | \$1,061,466 |
| Cost of services provided and goods sold | 621,933 | 149,490 | - | 771,423 |
| Selling, general and administrative expenses | 60,367 | 75,875 | 19,650 | 155,892 |
| Depreciation | 12,521 | 6,264 | 393 | 19,178 |
| Amortization | 1,467 | 471 | 1,437 | 3,375 |
| Other operating expenses | - | 1,126 | - | 1,126 |
| Total costs and expenses | 696,288 | 233,226 | 21,480 | 950,994 |
| Income/(loss) from operations | 97,762 | 34,190 | (21,480) | 110,472 |
| Interest expense | (188) | (364) | (10,480) | (11,032) |
| Intercompany interest income/(expense) | 2,361 | 1,221 | (3,582) | - |
| Other income/(expense)—net | 144 | 9 | 2,812 | 2,965 |
| Income/(expense) before income taxes | 100,079 | 35,056 | (32,730) | 102,405 |
| Income taxes | (38,080) | (13,341) | 11,580 | (39,841) |
| Net income/(loss) | \$61,999 | \$21,715 | \$(21,150) | \$62,564 |

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

| | VITAS | Roto-Router | Corporate | Chemed Consolidated |
|---|---------|-------------|------------|------------------------|
| Pretax benefit/(cost): | | | | |
| Stock option expense | \$- | \$- | \$(6,709) | \$(6,709) |
| Noncash impact of accounting for convertible debt | - | - | (5,919) | (5,919) |
| Expenses of class action litigation | - | (843) | - | (843) |
| Expenses of securities litigation | - | - | (265) | (265) |
| Acquisition expenses | (2) | (120) | - | (122) |
| Legal expenses of OIG investigation | (749) | - | - | (749) |
| HVAC shut-down costs | - | (1,126) | - | (1,126) |
| Total | \$(751) | \$(2,089) | \$(12,893) | \$(15,733) |

| | VITAS | Roto-Router | Corporate | Chemed Consolidated |
|---|-------|-------------|-----------|------------------------|
| After-tax benefit/(cost): | | | | |
| Stock option expense | \$- | \$- | \$(4,243) | \$(4,243) |
| Noncash impact of accounting for convertible debt | - | - | (3,744) | (3,744) |
| Expenses of class action litigation | - | (512) | - | (512) |
| Expenses of securities litigation | - | - | (168) | (168) |
| Acquisition expenses | (1) | (73) | - | (74) |
| Legal expenses of OIG investigation | (465) | - | - | (465) |
| HVAC shut-down costs | - | (649) | - | (649) |

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

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|------------|-------------|--------------|------------------------|
| 2011 (a) | | | | |
| Service revenues and sales | \$ 731,712 | \$ 274,005 | \$ - | \$ 1,005,717 |
| Cost of services provided and goods sold | 570,648 | 151,470 | - | 722,118 |
| Selling, general and administrative expenses | 57,392 | 76,181 | 20,123 | 153,696 |
| Depreciation | 12,489 | 6,067 | 403 | 18,959 |
| Amortization | 1,513 | 443 | 1,287 | 3,243 |
| Total costs and expenses | 642,042 | 234,161 | 21,813 | 898,016 |
| Income/(loss) from operations | 89,670 | 39,844 | (21,813) | 107,701 |
| Interest expense | (172) | (274) | (9,814) | (10,260) |
| Intercompany interest income/(expense) | 3,263 | 1,742 | (5,005) | - |
| Other income/(expense)—net | 3 | (2) | 880 | 881 |
| Income/(expense) before income taxes | 92,764 | 41,310 | (35,752) | 98,322 |
| Income taxes | (35,080) | (15,692) | 12,724 | (38,048) |
| Net income/(loss) | \$ 57,684 | \$ 25,618 | \$ (23,028) | \$ 60,274 |

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

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|---|-------------|-------------|--------------|------------------------|
| Pretax benefit/(cost): | | | | |
| Long-term incentive compensation | \$ - | \$ - | \$ (6,903) | \$ (6,903) |
| Stock option expense | - | - | (3,012) | (3,012) |
| Noncash impact of accounting for convertible debt | - | - | (5,476) | (5,476) |
| Expenses of class action litigation | - | (1,451) | - | (1,451) |
| Acquisition expenses | (117) | 6 | - | (111) |
| Legal expenses of OIG investigation | (1,209) | - | - | (1,209) |
| Total | \$ (1,326) | \$ (1,445) | \$ (15,391) | \$ (18,162) |

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated \$ |
|----------------------------------|-------|-------------|-----------|------------------------------|
| After-tax benefit/(cost): | | | | |
| Long-term incentive compensation | - | - | (4,366) | (4,366) |
| Stock option expense | - | - | (1,880) | (1,880) |

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| | | | | |
|--|-----------|-----------|-------------|--------------|
| Noncash impact of accounting for convertible debt | - | - | (3,464) | (3,464) |
| Expenses of class action litigation | - | (881) | - | (881) |
| Acquisition expenses | (73) | 4 | - | (69) |
| Legal expenses of OIG investigation | (749) | - | - | (749) |
| Total | \$ (822) | \$ (877) | \$ (9,710) | \$ (11,409) |

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Consolidating Summary and Reconciliation of Adjusted EBITDA

Chemed Corporation and Subsidiary Companies

(in thousands)

| For the three months ended September 30, 2012 | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|---|----------|-------------|-----------|---------------------|
| Net income/(loss) | \$21,940 | \$6,145 | \$(7,240) |) \$20,845 |
| Add/(deduct): | | | | |
| Interest expense | 62 | 150 | 3,531 | 3,743 |
| Income taxes | 13,516 | 3,661 | (3,955) |) 13,222 |
| Depreciation | 4,333 | 2,093 | 131 | 6,557 |
| Amortization | 489 | 160 | 486 | 1,135 |
| EBITDA | 40,340 | 12,209 | (7,047) |) 45,502 |
| Add/(deduct): | | | | |
| Intercompany interest expense/(income) | (795) |) (396) |) 1,191 | - |
| Interest income | (256) |) (12) |) (23) |) (291) |
| Legal expenses of OIG investigation | 483 | - | - | 483 |
| Acquisition expenses | 2 | 85 | - | 87 |
| HVAC shut-down costs | - | 1,126 | - | 1,126 |
| Advertising cost adjustment | - | (468) |) - | (468) |
| Expenses of class action litigation | - | 116 | - | 116 |
| Stock option expense | - | - | 2,397 | 2,397 |
| Expenses of securities litigation | - | - | 68 | 68 |
| Adjusted EBITDA | \$39,774 | \$12,660 | \$(3,414) |) \$49,020 |
| | | | | |
| For the three months ended September 30, 2011 | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
| Net income/(loss) | \$20,970 | \$8,016 | \$(7,099) |) \$21,887 |
| Add/(deduct): | | | | |
| Interest expense | 62 | 132 | 3,361 | 3,555 |
| Income taxes | 12,823 | 4,864 | (3,753) |) 13,934 |
| Depreciation | 4,123 | 2,058 | 132 | 6,313 |
| Amortization | 510 | 156 | 468 | 1,134 |
| EBITDA | 38,488 | 15,226 | (6,891) |) 46,823 |
| Add/(deduct): | | | | |
| Intercompany interest expense/(income) | (834) |) (451) |) 1,285 | - |
| Interest income | (43) |) (12) |) (19) |) (74) |
| Legal expenses of OIG investigation | 212 | - | - | 212 |
| Acquisition expenses | 2 | - | - | 2 |
| Advertising cost adjustment | - | (585) |) - | (585) |
| Expenses of class action litigation | - | 770 | - | 770 |
| Stock option expense | - | - | 2,408 | 2,408 |
| Adjusted EBITDA | \$37,825 | \$14,948 | \$(3,217) |) \$49,556 |

Consolidating Summary and Reconciliation of Adjusted EBITDA

Chemed Corporation and Subsidiary Companies

(in thousands)

For the nine months ended

September 30, 2012

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|------------|-------------|--------------|------------------------|
| Net income/(loss) | \$ 61,999 | \$ 21,715 | \$ (21,150) | \$ 62,564 |
| Add/(deduct): | | | | |
| Interest expense | 188 | 364 | 10,480 | 11,032 |
| Income taxes | 38,080 | 13,341 | (11,580) | 39,841 |
| Depreciation | 12,521 | 6,264 | 393 | 19,178 |
| Amortization | 1,467 | 471 | 1,437 | 3,375 |
| EBITDA | 114,255 | 42,155 | (20,420) | 135,990 |
| Add/(deduct): | | | | |
| Intercompany interest expense/(income) | (2,361) | (1,221) | 3,582 | - |
| Interest income | (328) | (22) | (51) | (401) |
| Legal expenses of OIG investigation | 749 | - | - | 749 |
| Acquisition expenses | 2 | 120 | - | 122 |
| HVAC shut-down costs | - | 1,126 | - | 1,126 |
| Advertising cost adjustment | - | (1,870) | - | (1,870) |
| Expenses of class action litigation | - | 843 | - | 843 |
| Stock option expense | - | - | 6,709 | 6,709 |
| Expenses of securities litigation | - | - | 265 | 265 |
| Adjusted EBITDA | \$ 112,317 | \$ 41,131 | \$ (9,915) | \$ 143,533 |

For the nine months ended

September 30, 2011

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|-----------|-------------|--------------|------------------------|
| Net income/(loss) | \$ 57,684 | \$ 25,618 | \$ (23,028) | \$ 60,274 |
| Add/(deduct): | | | | |
| Interest expense | 172 | 274 | 9,814 | 10,260 |
| Income taxes | 35,080 | 15,692 | (12,724) | 38,048 |
| Depreciation | 12,489 | 6,067 | 403 | 18,959 |
| Amortization | 1,513 | 443 | 1,287 | 3,243 |
| EBITDA | 106,938 | 48,094 | (24,248) | 130,784 |
| Add/(deduct): | | | | |
| Intercompany interest expense/(income) | (3,263) | (1,742) | 5,005 | - |
| Interest income | (86) | (28) | (83) | (197) |
| Legal expenses of OIG investigation | 1,209 | - | - | 1,209 |
| Acquisition expenses | 117 | (6) | - | 111 |
| Advertising cost adjustment | - | (1,442) | - | (1,442) |
| | - | 1,451 | - | 1,451 |

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| | | | | |
|-------------------------------------|------------|-----------|-------------|------------|
| Expenses of class action litigation | | | | |
| Stock option expense | - | - | 6,903 | 6,903 |
| Long-term incentive compensation | - | - | 3,012 | 3,012 |
| Adjusted EBITDA | \$ 104,915 | \$ 46,327 | \$ (9,411) | \$ 141,831 |

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

| OPERATING STATISTICS | Three Months Ended September 30, | | Nine Months Ended September 30, | | | |
|--|-------------------------------------|-----------|------------------------------------|-----------|---------|--|
| | 2012 | 2011 | 2012 | 2011 | | |
| Net revenue (\$000) | | | | | | |
| Homecare | \$197,764 | \$184,155 | \$577,511 | \$529,874 | | |
| Inpatient | 28,082 | 28,292 | 86,481 | 82,861 | | |
| Continuous care | 42,144 | 40,113 | 127,481 | 117,950 | | |
| Total before Medicare cap allowance | \$267,990 | \$252,560 | \$791,473 | \$730,685 | | |
| Medicare cap allowance | - | 384 | 2,577 | 1,027 | | |
| Total | \$267,990 | \$252,944 | \$794,050 | \$731,712 | | |
| Net revenue as a percent of total before Medicare cap allowance | | | | | | |
| Homecare | 73.8 | % 72.9 | % 73.0 | % 72.5 | % 72.5 | |
| Inpatient | 10.5 | 11.2 | 10.9 | 11.3 | | |
| Continuous care | 15.7 | 15.9 | 16.1 | 16.2 | | |
| Total before Medicare cap allowance | 100.0 | 100.0 | 100.0 | 100.0 | | |
| Medicare cap allowance | - | 0.2 | 0.3 | 0.1 | | |
| Total | 100.0 | % 100.2 | % 100.3 | % 100.1 | % 100.1 | |
| Average daily census (days) | | | | | | |
| Homecare | 10,123 | 9,485 | 9,904 | 9,185 | | |
| Nursing home | 3,073 | 3,118 | 3,031 | 3,062 | | |
| Routine homecare | 13,196 | 12,603 | 12,935 | 12,247 | | |
| Inpatient | 460 | 456 | 466 | 451 | | |
| Continuous care | 621 | 599 | 630 | 601 | | |
| Total | 14,277 | 13,658 | 14,031 | 13,299 | | |
| Total Admissions | 15,539 | 14,879 | 47,773 | 45,971 | | |
| Total Discharges | 15,340 | 14,682 | 47,064 | 45,104 | | |
| Average length of stay (days) | 78.5 | 80.1 | 78.3 | 78.7 | | |
| Median length of stay (days) | 15.0 | 15.0 | 15.0 | 14.0 | | |
| ADC by major diagnosis | | | | | | |
| Neurological | 33.9 | % 34.3 | % 34.1 | % 34.4 | % 34.4 | |
| Cancer | 17.3 | 17.5 | 17.6 | 17.7 | | |
| Cardio | 11.2 | 11.3 | 11.4 | 11.6 | | |
| Respiratory | 6.7 | 6.6 | 6.7 | 6.8 | | |
| Other | 30.9 | 30.3 | 30.2 | 29.5 | | |
| Total | 100.0 | % 100.0 | % 100.0 | % 100.0 | % 100.0 | |
| Admissions by major diagnosis | | | | | | |
| Neurological | 19.3 | % 19.0 | % 19.3 | % 19.3 | % 19.3 | |
| Cancer | 34.0 | 34.7 | 33.3 | 33.1 | | |
| Cardio | 10.5 | 10.4 | 11.1 | 10.9 | | |
| Respiratory | 7.4 | 7.8 | 8.1 | 8.5 | | |
| Other | 28.8 | 28.1 | 28.2 | 28.2 | | |
| Total | 100.0 | % 100.0 | % 100.0 | % 100.0 | % 100.0 | |
| Direct patient care margins | | | | | | |

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| | | | | | | | | |
|--|----------|---|----------|---|----------|-----|----------|-----|
| Routine homecare | 52.5 | % | 52.4 | % | 51.8 | % | 52.0 | % |
| Inpatient | 9.2 | | 12.4 | | 12.0 | | 12.9 | |
| Continuous care | 19.0 | | 20.7 | | 19.6 | | 20.5 | |
| Homecare margin drivers (dollars per patient day) | | | | | | | | |
| Labor costs | \$54.69 | | \$53.13 | | \$55.64 | | \$53.88 | |
| Drug costs | 8.11 | | 8.26 | | 8.25 | | 8.14 | |
| Home medical equipment | 7.03 | | 6.64 | | 6.88 | | 6.65 | |
| Medical supplies | 2.77 | | 2.81 | | 2.77 | | 2.80 | |
| Inpatient margin drivers (dollars per patient day) | | | | | | | | |
| Labor costs | \$326.95 | | \$312.72 | | \$320.79 | | \$310.25 | |
| Continuous care margin drivers (dollars per patient day) | | | | | | | | |
| Labor costs | \$575.21 | | \$555.63 | | \$571.56 | | \$550.09 | |
| Bad debt expense as a percent of revenues | 0.8 | % | 0.8 | % | 0.8 | % | 0.7 | % |
| Accounts receivable -- | | | | | | | | |
| Days of revenue outstanding- excluding unapplied Medicare payments | 35.4 | | 38.9 | | | n.a | | n.a |
| Days of revenue outstanding- including unapplied Medicare payments | 27.9 | | 34.6 | | | n.a | | n.a |

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our primary market risk exposure relates to interest rate risk exposure through variable interest rate borrowings. At September 30, 2012, we had no variable rate debt outstanding. At September 30, 2012, the fair value of the Notes approximates \$197.1 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 10, Legal and Regulatory Matters, under Part I, Item I of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

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

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

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

The following table shows the activity related to our share repurchase program for the first nine months of 2012:

| | Total Number of Shares Repurchased | Weighted Average Price Paid Per Share | Cumulative Shares Repurchased Under the Program | Dollar Amount Remaining Under The Program |
|---|--|--|---|---|
| February 2011 Program | | | | |
| January 1 through January 31, 2012 | - | \$ - | 2,602,513 | \$ 75,268,254 |
| February 1 through February 29, 2012 | - | - | 2,602,513 | 75,268,254 |
| March 1 through March 31, 2012 | - | - | 2,602,513 | \$ 75,268,254 |
| First Quarter Total | - | \$ - | | |
| | | | | |
| April 1 through April 30, 2012 | - | \$ - | 2,602,513 | \$ 75,268,254 |
| May 31 through May 31, 2012 | 168,812 | 55.77 | 2,771,325 | 65,853,060 |
| June 1 through June 30, 2012 | 31,088 | 55.42 | 2,802,413 | \$ 64,130,136 |
| Second Quarter Total | 199,900 | \$ 55.72 | | |
| | | | | |
| July 1 through July 31, 2012 | - | \$ - | - | \$ 64,130,136 |
| August 1 through August 31, 2012 | 9,334 | 62.75 | 2,811,747 | 63,544,438 |
| September 1 through September 30, 2012 | - | - | - | \$ 63,544,438 |
| Third Quarter Total | 9,334 | \$ 62.75 | | |

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

| Exhibit No. | Description |
|-------------|--|
| 31.1 | Certification by Kevin J. McNamara pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934. |
| 31.2 | Certification by David P. Williams pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934. |
| 31.3 | Certification by Arthur V. Tucker, Jr. pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934. |
| 32.1 | Certification by Kevin J. McNamara pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification by David P. Williams pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.3 | Certification by Arthur V. Tucker, Jr. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

SIGNATURES

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

Chemed Corporation
(Registrant)

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

Dated: November 2, 2012 By: /s/ David P. Williams
David P. Williams

(Executive Vice President and Chief
Financial Officer)

Dated:

November 2, 2012

By:

/s/ Arthur V. Tucker, Jr.
Arthur V. Tucker, Jr.
(Vice President and Controller)

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