

CHEMED CORP
Form 10-Q
November 03, 2010

UNITED STATES

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

(Mark One)

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

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

Commission File Number: 1-8351

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

Delaware
(State or other jurisdiction of incorporation or organization)

31-0791746
(IRS Employer Identification No.)

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

45202
(Zip code)

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

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

Yes X No

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

Yes X No

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

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

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

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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 | 22,792,430 Shares | September 30, 2010 |

CHEMED CORPORATION AND
SUBSIDIARY COMPANIES

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

| | September 30, 2010 | December 31, 2009 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 137,457 | \$ 112,416 |
| Accounts receivable less allowances of \$13,815 (2009 - \$12,595) | 105,686 | 53,461 |
| Inventories | 7,951 | 7,543 |
| Current deferred income taxes | 14,650 | 13,701 |
| Prepaid income taxes | 337 | 749 |
| Prepaid expenses | 9,925 | 10,388 |
| Total current assets | 276,006 | 198,258 |
| Investments of deferred compensation plans | 26,022 | 24,158 |
| Properties and equipment, at cost, less accumulated depreciation of \$127,848 (2009 - \$115,181) | 78,982 | 75,358 |
| Identifiable intangible assets less accumulated amortization of \$27,101 (2009 - \$25,349) | 56,097 | 57,920 |
| Goodwill | 450,095 | 450,042 |
| Other assets | 11,190 | 13,734 |
| Total Assets | \$ 898,392 | \$ 819,470 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$ 52,552 | \$ 52,071 |
| Income taxes | 4,575 | 63 |
| Accrued insurance | 34,320 | 35,161 |
| Accrued compensation | 45,183 | 34,662 |
| Other current liabilities | 15,637 | 14,127 |
| Total current liabilities | 152,267 | 136,084 |
| Deferred income taxes | 23,045 | 25,924 |
| Long-term debt | 157,392 | 152,127 |
| Deferred compensation liabilities | 25,508 | 23,637 |
| Other liabilities | 6,624 | 4,536 |
| Total Liabilities | 364,836 | 342,308 |
| STOCKHOLDERS' EQUITY | | |
| Capital stock - authorized 80,000,000 shares \$1 par; issued 30,207,002 shares (2009 - 29,890,628 shares) | 30,207 | 29,891 |
| Paid-in capital | 354,473 | 335,890 |

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| | | |
|--|------------|------------|
| Retained earnings | 453,886 | 403,366 |
| Treasury stock - 7,515,127 shares (2009 - 7,275,070 shares), at cost | (306,977) | (293,941) |
| Deferred compensation payable in Company stock | 1,967 | 1,956 |
| Total Stockholders' Equity | 533,556 | 477,162 |
| Total Liabilities and Stockholders' Equity | \$ 898,392 | \$ 819,470 |

See accompanying notes to unaudited financial statements.

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

| | Three Months Ended September | | Nine Months Ended September | |
|---|------------------------------|------------|-----------------------------|------------|
| | 30, | | 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Service revenues and sales | \$ 320,451 | \$ 296,794 | \$ 944,259 | \$ 886,987 |
| Cost of services provided and goods sold (excluding depreciation) | 227,915 | 208,888 | 670,754 | 623,238 |
| Selling, general and administrative expenses | 48,200 | 48,148 | 146,694 | 143,521 |
| Depreciation | 6,385 | 5,361 | 18,048 | 16,024 |
| Amortization | 1,196 | 1,611 | 3,707 | 4,765 |
| Other operating expenses | - | - | - | 3,989 |
| Total costs and expenses | 283,696 | 264,008 | 839,203 | 791,537 |
| Income from operations | 36,755 | 32,786 | 105,056 | 95,450 |
| Interest expense | (2,995) | (2,853) | (8,946) | (8,839) |
| Other income--net | 222 | 1,733 | 418 | 4,815 |
| Income before income taxes | 33,982 | 31,666 | 96,528 | 91,426 |
| Income taxes | (12,994) | (12,456) | (37,327) | (35,627) |
| Net income | \$ 20,988 | \$ 19,210 | \$ 59,201 | \$ 55,799 |
| | | | | |
| Earnings Per Share | | | | |
| Net income | \$ 0.93 | \$ 0.86 | \$ 2.62 | \$ 2.49 |
| Average number of shares outstanding | 22,597 | 22,461 | 22,604 | 22,425 |
| | | | | |
| Diluted Earnings Per Share | | | | |
| Net income | \$ 0.91 | \$ 0.84 | \$ 2.57 | \$ 2.46 |
| Average number of shares outstanding | 22,996 | 22,744 | 23,006 | 22,679 |
| | | | | |
| Cash Dividends Per Share | \$ 0.14 | \$ 0.12 | \$ 0.38 | \$ 0.24 |

See accompanying notes to unaudited financial statements.

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

| | Nine Months Ended September 30, | |
|---|------------------------------------|-----------|
| | 2010 | 2009 |
| Cash Flows from Operating Activities | | |
| Net income | \$ 59,201 | \$ 55,799 |
| Adjustments to reconcile net income to net cash provided | | |
| by operating activities: | | |
| Depreciation and amortization | 21,755 | 20,789 |
| Provision for uncollectible accounts receivable | 7,248 | 8,297 |
| Stock option expense | 6,365 | 6,699 |
| Amortization of discount on convertible notes | 5,265 | 4,921 |
| Provision for deferred income taxes | (3,886) | (1,336) |
| Noncash long-term incentive compensation | 1,580 | - |
| Changes in operating assets and liabilities, excluding amounts acquired in business combinations: | | |
| Increase in accounts receivable | (59,528) | (16,936) |
| Increase in inventories | (408) | (499) |
| Decrease in prepaid expenses | 463 | 1,406 |
| Increase/(decrease) in accounts payable and other current liabilities | 12,479 | (4,584) |
| Increase in income taxes | 6,729 | 8,657 |
| Increase in other assets | (2,180) | (103) |
| Increase/(decrease) in other liabilities | 3,960 | (1,632) |
| Excess tax benefit on share-based compensation | (1,823) | (1,519) |
| Other sources | 770 | 588 |
| Net cash provided by operating activities | 57,990 | 80,547 |
| Cash Flows from Investing Activities | | |
| Capital expenditures | (19,107) | (14,471) |
| Proceeds from sales of property and equipment | 182 | 1,519 |
| Business combinations, net of cash acquired | (30) | (1,859) |
| Other uses | (630) | (950) |
| Net cash used by investing activities | (19,585) | (15,761) |
| Cash Flows from Financing Activities | | |
| Purchases of treasury stock | (10,140) | (1,684) |
| Dividends paid | (8,682) | (5,429) |
| Proceeds from issuance of capital stock | 3,632 | 486 |
| Excess tax benefit on share-based compensation | 1,823 | 1,519 |
| Changes in cash overdrafts payable | (184) | 943 |
| Repayment of long-term debt | - | (14,599) |
| Net decrease in revolving line of credit | - | (8,200) |
| Other sources | 187 | 597 |
| Net cash used by financing activities | (13,364) | (26,367) |
| Increase in Cash and Cash Equivalents | 25,041 | 38,419 |
| Cash and cash equivalents at beginning of year | 112,416 | 3,628 |

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| | | | | |
|--|----|---------|----|--------|
| Cash and cash equivalents at end of period | \$ | 137,457 | \$ | 42,047 |
|--|----|---------|----|--------|

See accompanying notes to unaudited financial statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES

Notes to Unaudited Financial Statements

1. Basis of Presentation

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

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

2. Revenue Recognition

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

As of September 30, 2010, VITAS has approximately \$5.6 million in unbilled revenue included in accounts receivable (December 31, 2009 - \$9.9 million). The unbilled revenue at VITAS relates to hospice programs currently undergoing focused medical reviews ("FMR"). During FMR, surveyors working on behalf of the U.S. Federal government review certain patient files for compliance with Medicare regulations. During the time the patient file is under review, we are unable to bill for care provided to those patients. We make appropriate provisions to reduce our accounts receivable balance for potential denials of patient service revenue due to FMR activity.

We actively monitor each of our hospice programs, by provider number, as to their specific admission, discharge rate and median length of stay data in an attempt to determine whether they are likely to exceed the annual per-beneficiary Medicare cap ("Medicare cap"). Should we determine that revenues for a program are likely to exceed the Medicare cap based on projected trends, we attempt to institute corrective action to influence the patient mix or to increase patient admissions. However, should we project our corrective action will not prevent that program from exceeding its Medicare cap, we estimate the amount of revenue recognized during the period that will require repayment to the Federal government under the Medicare cap and record the amount as a reduction to patient revenue. The Medicare cap measurement period is from September 29 through September 28 of the following year for admissions and from November 1 through October 31 of the following year for revenue. During the three-month period ended September 30, 2010 we recorded \$117,000 for one small program's projected Medicare cap liability for the 2010 measurement period. For the nine month period ended September 30, 2010, we reversed \$1.7 million, net in Medicare cap liability for amounts recorded in the fourth quarter of 2009 for two programs' projected 2010 measurement period liability. For the three-month period ended September 30, 2009, we recorded \$43,000 in Medicare cap liability related to a retroactive billing for 2006. For the nine month period ended September 30, 2009, we reversed \$235,000 for the 2009 measurement period offset by \$43,000 in Medicare cap liability related to a retroactive billing for 2006.

The U.S. government revises hospice reimbursement rates on an annual basis using the Hospice Wage Index (HWI) and the Consumer Price Index plus a phase out of the Budget Neutrality Adjustment Factor (BNAF). The HWI is geographically adjusted to reflect local differences in wages. The BNAF is a portion of inflation calculated in prior

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

3. Segments

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|-----------------------------------|-------------------------------------|------------|------------------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Service Revenues and Sales | | | | |
| VITAS | \$ 233,964 | \$ 217,067 | \$ 683,542 | \$ 636,787 |
| Roto-Rooter | 86,487 | 79,727 | 260,717 | 250,200 |
| Total | \$ 320,451 | \$ 296,794 | \$ 944,259 | \$ 886,987 |
| After-tax Earnings | | | | |
| VITAS | \$ 19,803 | \$ 18,148 | \$ 56,523 | \$ 52,442 |
| Roto-Rooter | 7,747 | 7,935 | 24,420 | 24,962 |
| Total | 27,550 | 26,083 | 80,943 | 77,404 |
| Corporate | (6,562) | (6,873) | (21,742) | (21,605) |
| Net income | \$ 20,988 | \$ 19,210 | \$ 59,201 | \$ 55,799 |

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

4. Earnings per Share

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

| | For the Three Months Ended September 30, | Net Income | Shares | Earnings per Share |
|------------------------|--|------------|--------|-----------------------|
| 2010 | | | | |
| Earnings | | \$20,988 | 22,597 | \$0.93 |
| Dilutive stock options | | - | 304 | |
| Nonvested stock awards | | - | 95 | |
| Diluted earnings | | \$20,988 | 22,996 | \$0.91 |
| 2009 | | | | |
| Earnings | | \$19,210 | 22,461 | \$0.86 |
| Dilutive stock options | | - | 227 | |
| Nonvested stock awards | | - | 56 | |
| Diluted earnings | | \$19,210 | 22,744 | \$0.84 |

| | For the Nine Months Ended September 30, | Net Income | Shares | Earnings per Share |
|------------------------|---|------------|--------|--------------------|
| 2010 | | | | |
| Earnings | | \$ 59,201 | 22,604 | \$ 2.62 |
| Dilutive stock options | | - | 314 | |
| Nonvested stock awards | | - | 88 | |
| Diluted earnings | | \$ 59,201 | 23,006 | \$ 2.57 |
| 2009 | | | | |
| Earnings | | \$ 55,799 | 22,425 | \$ 2.49 |
| Dilutive stock options | | - | 212 | |
| Nonvested stock awards | | - | 42 | |
| Diluted earnings | | \$ 55,799 | 22,679 | \$ 2.46 |

For the three and nine-month periods ended September 30, 2010, 990,000 and 986,000 stock options, respectively were excluded from the computation of diluted earnings per share as their exercise prices were greater than the average market price for most of the period. For the three and nine-month periods ended September 30, 2009, 1.3 million and 1.7 million stock options were excluded from the computation of diluted earnings per share.

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

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

| Share Price | Shares Underlying 1.875% | | Total Treasury Method | Shares Due to the Company | Incremental Shares Issued/ (Received) by the Company |
|-------------|--------------------------|----------------|------------------------|---------------------------|--|
| | Convertible Notes | Warrant Shares | Incremental Shares (a) | under Notes Hedges | upon Conversion (b) |
| \$ 80.73 | 15,037 | - | 15,037 | (16,087) | (1,050) |
| \$ 90.73 | 270,280 | - | 270,280 | (289,138) | (18,858) |
| \$ 100.73 | 474,844 | - | 474,844 | (507,974) | (33,130) |
| \$ 110.73 | 642,460 | 119,123 | 761,583 | (687,285) | 74,298 |
| \$ 120.73 | 782,309 | 315,790 | 1,098,099 | (836,891) | 261,208 |
| \$ 130.73 | 900,763 | 482,369 | 1,383,132 | (963,610) | 419,522 |

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

b)

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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.

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5. Long-Term Debt

We are in compliance with all debt covenants as of September 30, 2010. We have issued \$28.2 million in standby letters of credit as of September 30, 2010 for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of September 30, 2010, we have approximately \$146.8 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the \$100 million expansion feature.

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

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

| | September 30, 2010 | December 31, 2009 |
|--|-----------------------|----------------------|
| Principal amount of convertible debentures | \$ 186,956 | \$ 186,956 |
| Unamortized debt discount | (29,564) | (34,829) |
| Carrying amount of convertible debentures | \$ 157,392 | \$ 152,127 |
| Additional paid in capital (net of tax) | \$ 31,310 | \$ 31,310 |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| Cash interest expense | \$ 1,044 | \$ 1,014 | \$ 3,198 | \$ 3,438 |
| Non-cash amortization of debt discount | 1,785 | 1,668 | 5,265 | 4,921 |
| Amortization of debt costs | 166 | 171 | 483 | 480 |
| Total interest expense | \$ 2,995 | \$ 2,853 | \$ 8,946 | \$ 8,839 |

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

6. Other Operating Expenses

For the nine-month period of 2009, we recorded pretax expenses of \$4.0 million related to the costs of a contested proxy solicitation. There were no other operating expenses for any other period presented.

7. Other Income -- Net

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|----------|------------------------------------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| Market value gains on assets held in deferred compensation trust | \$ 243 | \$ 1,789 | \$ 348 | \$ 3,374 |
| Gain on settlement of company-owned life insurance | - | - | - | 1,211 |
| Loss on disposal of property and equipment | (141) | (159) | (293) | (213) |
| Interest income | 109 | 86 | 334 | 375 |
| Other - net | 11 | 17 | 29 | 68 |
| Total other income | \$ 222 | \$ 1,733 | \$ 418 | \$ 4,815 |

8. Stock-Based Compensation Plans

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

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

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

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

9. Independent Contractor Operations

The Roto-Rooter segment sublicenses with sixty-one independent contractors to operate certain plumbing repair and drain cleaning businesses in lesser-populated areas of the United States and Canada. We had notes receivable from our independent contractors as of September 30, 2010 totaling \$1.2 million (December 31, 2009 -\$1.3 million). In most cases these loans are fully or partially secured by equipment owned by the contractor. The interest rates on the loans range from zero to 8% per annum and the remaining terms of the loans range from two months to 5 years at September 30, 2010. During the three months ended September 30, 2010, we recorded revenues of \$5.5 million (2009 - \$5.3 million) and pretax profits of \$2.5 million (2009 - \$2.4 million) from our independent contractors. During the nine months ended September 30, 2010, we recorded revenues of \$16.7 million (2009 - \$16.0 million) and pretax profits of \$7.6 million (2009 - \$7.1 million) from our independent contractors.

10. Pension and Retirement Plans

All of the Company's plans that provide retirement and similar benefits are defined contribution plans. Expenses for the Company's pension and profit-sharing plans, excess benefit plans and other similar plans were \$2.3 million and \$4.3 million for the three months ended September 30, 2010 and 2009, respectively. Expenses for the Company's pension and profit-sharing plans, excess benefit plans and other similar plans were \$7.0 million and \$11.3 million for the nine months ended September 30, 2010 and 2009, respectively.

11. Legal and Regulatory Matters

Litigation

On March 1, 2010 Anthony Morangelli and Frank Ercole filed a class action lawsuit in federal district court for the Eastern District of New York seeking unpaid minimum wages and overtime service technician compensation from Roto-Rooter and Chemed. They also seek payment of penalties, interest and plaintiffs' attorney fees. We contest these allegations. In 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. There has been no final determination of the merits of collective treatment of the case. The lawsuit is in its early stage and we are unable to estimate our potential liability, if any, with respect to these allegations.

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

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

Regulatory Matters

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

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

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

12. Related Party Agreement

VITAS has pharmacy services agreements ("Agreements") with Omnicare, Inc. and its subsidiaries ("OCR") whereby OCR provides specified pharmacy services for VITAS and its hospice patients in geographical areas served by both VITAS and OCR. The Agreements renew automatically for one-year terms. Either party may cancel the Agreements at the end of any term by giving 90 days prior written notice. VITAS made purchases from OCR of \$9.0 million and \$8.5 million for the three months ended September 30, 2010 and 2009, respectively. VITAS made purchases from OCR of \$26.5 million and \$24.6 million for the nine months ended September 30, 2010 and 2009, respectively.

Mr. Joel Gemunder retired as President and CEO of OCR during the third quarter of 2010 and is a director of the Company. Ms. Andrea Lindell is a director of both OCR and the Company. Mr. Kevin J. McNamara, President, Chief Executive Officer and a director of the Company, is a director emeritus of OCR. We believe that the terms of the Agreements are no less favorable to VITAS than we could negotiate with an unrelated party.

13. Cash Overdrafts Payable

Included in accounts payable at September 30, 2010 is cash overdrafts payable of \$11.5 million (December 31, 2009 - \$11.7 million).

14. Financial Instruments

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

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

| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Fair Value Measure Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--|----------------|--|---|--|
| | Carrying Value | | | |
| Mutual fund investments of deferred compensation plans held in trust | \$ 26,022 | \$ 26,022 | \$ - | \$ - |
| Long-term debt | 157,392 | 181,114 | - | - |

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

15. Capital Stock Transactions

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

16. Guarantor Subsidiaries

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

| September 30, 2010 | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-------------|------------------------|----------------------------|---------------------------|--------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 131,776 | \$ 314 | \$ 5,367 | \$ - | \$ 137,457 |
| Accounts receivable, less allowances | 913 | 104,115 | 658 | - | 105,686 |
| Intercompany receivables | - | 175,204 | - | (175,204) | - |
| Inventories | - | 7,301 | 650 | - | 7,951 |
| Current deferred income taxes | (1,164) | 15,680 | 134 | - | 14,650 |
| Prepaid income taxes | 4,109 | (3,490) | (282) | - | 337 |
| Prepaid expenses | 946 | 8,811 | 168 | - | 9,925 |
| Total current assets | 136,580 | 307,935 | 6,695 | (175,204) | 276,006 |
| Investments of deferred compensation plans | - | - | 26,022 | - | 26,022 |
| Properties and equipment, at cost, less accumulated depreciation | 12,747 | 63,983 | 2,252 | - | 78,982 |
| Identifiable intangible assets less accumulated amortization | - | 56,097 | - | - | 56,097 |
| Goodwill | - | 445,639 | 4,456 | - | 450,095 |
| Other assets | 6,204 | 2,729 | 2,257 | - | 11,190 |
| Investments in subsidiaries | 696,578 | 18,261 | - | (714,839) | - |
| Total assets | \$ 852,109 | \$ 894,644 | \$ 41,682 | \$ (890,043) | \$ 898,392 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Accounts payable | \$ (1,725) | \$ 53,857 | \$ 420 | \$ - | \$ 52,552 |
| Intercompany payables | 169,942 | - | 5,262 | (175,204) | - |
| Income taxes | (4,848) | 8,791 | 632 | - | 4,575 |
| Accrued insurance | 666 | 33,654 | - | - | 34,320 |
| Accrued compensation | 3,064 | 41,632 | 487 | - | 45,183 |
| Other current liabilities | 3,084 | 12,433 | 120 | - | 15,637 |
| Total current liabilities | 170,183 | 150,367 | 6,921 | (175,204) | 152,267 |
| Deferred income taxes | (11,958) | 43,473 | (8,470) | - | 23,045 |
| Long-term debt | 157,392 | - | - | - | 157,392 |
| Deferred compensation liabilities | - | - | 25,508 | - | 25,508 |
| Other liabilities | 2,936 | 3,212 | 476 | - | 6,624 |
| Stockholders' equity | 533,556 | 697,592 | 17,247 | (714,839) | 533,556 |
| Total liabilities and stockholders' equity | \$ 852,109 | \$ 894,644 | \$ 41,682 | \$ (890,043) | \$ 898,392 |

| December 31, 2009 | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-------------|---------------------------|-------------------------------|------------------------------|--------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 109,331 | \$ (1,221) | \$ 4,306 | \$ - | \$ 112,416 |
| Accounts receivable, less allowances | 618 | 52,303 | 540 | - | 53,461 |
| Intercompany receivables | - | 149,888 | - | (149,888) | - |
| Inventories | - | 7,009 | 534 | - | 7,543 |
| Current deferred income taxes | (378) | 14,048 | 31 | - | 13,701 |
| Prepaid expenses | (2,457) | 13,706 | (112) | - | 11,137 |
| Total current assets | 107,114 | 235,733 | 5,299 | (149,888) | 198,258 |
| Investments of deferred compensation plans | - | - | 24,158 | - | 24,158 |
| Properties and equipment, at cost, less accumulated depreciation | 10,309 | 62,912 | 2,137 | - | 75,358 |
| Identifiable intangible assets less accumulated amortization | - | 57,920 | - | - | 57,920 |
| Goodwill | - | 445,662 | 4,380 | - | 450,042 |
| Other assets | 11,190 | 2,232 | 312 | - | 13,734 |
| Investments in subsidiaries | 643,572 | 15,523 | - | (659,095) | - |
| Total assets | \$ 772,185 | \$ 819,982 | \$ 36,286 | \$ (808,983) | \$ 819,470 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Accounts payable | \$ (2,411) | \$ 54,084 | \$ 398 | \$ - | \$ 52,071 |
| Intercompany payables | 147,744 | - | 2,144 | (149,888) | - |
| Income taxes | (2,145) | 2,159 | 49 | - | 63 |
| Accrued insurance | 1,231 | 33,930 | - | - | 35,161 |
| Accrued compensation | 4,235 | 30,020 | 407 | - | 34,662 |
| Other current liabilities | 1,643 | 11,367 | 1,117 | - | 14,127 |
| Total current liabilities | 150,297 | 131,560 | 4,115 | (149,888) | 136,084 |
| Deferred income taxes | (10,549) | 43,183 | (6,710) | - | 25,924 |
| Long-term debt | 152,127 | - | - | - | 152,127 |
| Deferred compensation liabilities | - | - | 23,637 | - | 23,637 |
| Other liabilities | 3,148 | 1,388 | - | - | 4,536 |
| Stockholders' equity | 477,162 | 643,851 | 15,244 | (659,095) | 477,162 |
| Total liabilities and stockholders' equity | \$ 772,185 | \$ 819,982 | \$ 36,286 | \$ (808,983) | \$ 819,470 |

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For the three months ended
September 30, 2010

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-----------|---------------------------|-------------------------------|------------------------------|--------------|
| Continuing Operations | | | | | |
| Service revenues and sales | \$ - | \$ 313,787 | \$ 6,664 | \$ - | \$ 320,451 |
| Cost of services provided and goods sold (excluding depreciation) | - | 224,316 | 3,599 | - | 227,915 |
| Selling, general and administrative expenses | 5,134 | 41,648 | 1,418 | - | 48,200 |
| Depreciation | 241 | 5,945 | 199 | - | 6,385 |
| Amortization | 370 | 826 | - | - | 1,196 |
| Total costs and expenses | 5,745 | 272,735 | 5,216 | - | 283,696 |
| Income/ (loss) from operations | (5,745) | 41,052 | 1,448 | - | 36,755 |
| Interest expense | (2,893) | (102) | - | - | (2,995) |
| Other (expense)/income - net | 3,889 | (3,902) | 235 | - | 222 |
| Income/ (loss) before income taxes | (4,749) | 37,048 | 1,683 | - | 33,982 |
| Income tax (provision)/ benefit | 1,498 | (13,859) | (633) | - | (12,994) |
| Equity in net income of subsidiaries | 24,239 | 1,005 | - | (25,244) | - |
| Net income | \$ 20,988 | \$ 24,194 | \$ 1,050 | \$ (25,244) | \$ 20,988 |

For the three months ended
September 30, 2009

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-----------|---------------------------|-------------------------------|------------------------------|--------------|
| Continuing Operations | | | | | |
| Service revenues and sales | \$ - | \$ 291,121 | \$ 5,673 | \$ - | \$ 296,794 |
| Cost of services provided and goods sold (excluding depreciation) | - | 205,940 | 2,948 | - | 208,888 |
| Selling, general and administrative expenses | 5,568 | 39,721 | 2,859 | - | 48,148 |
| Depreciation | 166 | 5,016 | 179 | - | 5,361 |
| Amortization | 315 | 1,296 | - | - | 1,611 |
| Total costs and expenses | 6,049 | 251,973 | 5,986 | - | 264,008 |
| Income/ (loss) from operations | (6,049) | 39,148 | (313) | - | 32,786 |
| Interest expense | (2,759) | (94) | - | - | (2,853) |
| Other income - net | 1,188 | (1,271) | 1,816 | - | 1,733 |
| Income/ (loss) before income taxes | (7,620) | 37,783 | 1,503 | - | 31,666 |
| Income tax (provision)/ benefit | 2,452 | (14,317) | (591) | - | (12,456) |
| Equity in net income of subsidiaries | 24,378 | 903 | - | (25,281) | - |
| Net income | \$ 19,210 | \$ 24,369 | \$ 912 | \$ (25,281) | \$ 19,210 |

For the nine months ended
September 30, 2010

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|------------------------------|--------|---------------------------|-------------------------------|------------------------------|--------------|
| Continuing Operations | | | | | |
| Service revenues and sales | \$ - | \$ 925,614 | \$ 18,645 | \$ - | \$ 944,259 |

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| | | | | | |
|---|-----------|-----------|----------|--------------|-----------|
| Cost of services provided and goods sold (excluding depreciation) | - | 660,971 | 9,783 | - | 670,754 |
| Selling, general and administrative expenses | 17,340 | 125,267 | 4,087 | - | 146,694 |
| Depreciation | 621 | 16,827 | 600 | - | 18,048 |
| Amortization | 1,066 | 2,641 | - | - | 3,707 |
| Total costs and expenses | 19,027 | 805,706 | 14,470 | - | 839,203 |
| Income/ (loss) from operations | (19,027) | 119,908 | 4,175 | - | 105,056 |
| Interest expense | (8,632) | (314) | - | - | (8,946) |
| Other (expense)/income - net | 11,180 | (11,101) | 339 | - | 418 |
| Income/ (loss) before income taxes | (16,479) | 108,493 | 4,514 | - | 96,528 |
| Income tax (provision)/ benefit | 5,392 | (40,965) | (1,754) | - | (37,327) |
| Equity in net income of subsidiaries | 70,288 | 2,825 | - | (73,113) | - |
| Net income | \$ 59,201 | \$ 70,353 | \$ 2,760 | \$ (73,113) | \$ 59,201 |

For the nine months ended

September 30, 2009

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|-----------|---------------------------|-------------------------------|------------------------------|--------------|
| Continuing Operations | | | | | |
| Service revenues and sales | \$ - | \$ 869,642 | \$ 17,345 | \$ - | \$ 886,987 |
| Cost of services provided and goods sold (excluding depreciation) | - | 614,385 | 8,853 | - | 623,238 |
| Selling, general and administrative expenses | 16,836 | 119,699 | 6,986 | - | 143,521 |
| Depreciation | 465 | 15,039 | 520 | - | 16,024 |
| Amortization | 905 | 3,860 | - | - | 4,765 |
| Other operating expenses | 3,989 | - | - | - | 3,989 |
| Total costs and expenses | 22,195 | 752,983 | 16,359 | - | 791,537 |
| Income/ (loss) from operations | (22,195) | 116,659 | 986 | - | 95,450 |
| Interest (expense)/income | (8,286) | (559) | 6 | - | (8,839) |
| Other (expense)/income - net | 1,678 | (1,510) | 4,647 | - | 4,815 |
| Income/ (loss) before income taxes | (28,803) | 114,590 | 5,639 | - | 91,426 |
| Income tax (provision)/ benefit | 9,870 | (43,533) | (1,964) | - | (35,627) |
| Equity in net income of subsidiaries | 74,732 | 3,803 | - | (78,535) | - |
| Net income | \$ 55,799 | \$ 74,860 | \$ 3,675 | \$ (78,535) | \$ 55,799 |

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For the nine months ended September 30, 2010

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidated |
|---|------------|---------------------------|-------------------------------|--------------|
| Cash Flow from Operating Activities: | | | | |
| Net cash provided/(used) by operating activities | \$(4,364) | \$ 61,703 | \$ 651 | \$ 57,990 |
| Cash Flow from Investing Activities: | | | | |
| Capital expenditures | (14) | (18,399) | (694) | (19,107) |
| Business combinations, net of cash acquired | - | (30) | - | (30) |
| Proceeds from sale of property and equipment | - | 176 | 6 | 182 |
| Other uses - net | (116) | (489) | (25) | (630) |
| Net cash used by investing activities | (130) | (18,742) | (713) | (19,585) |
| Cash Flow from Financing Activities: | | | | |
| Change in cash overdrafts payable | 508 | (692) | - | (184) |
| Change in intercompany accounts | 40,895 | (41,841) | 946 | - |
| Dividends paid to shareholders | (8,682) | - | - | (8,682) |
| Purchases of treasury stock | (10,129) | - | (11) | (10,140) |
| Proceeds from exercise of stock options | 3,632 | - | - | 3,632 |
| Realized excess tax benefit on share based compensation | 716 | 1,107 | - | 1,823 |
| Other sources - net | (1) | - | 188 | 187 |
| Net cash provided/ (used) by financing activities | 26,939 | (41,426) | 1,123 | (13,364) |
| Net increase/(decrease) in cash and cash equivalents | 22,445 | 1,535 | 1,061 | 25,041 |
| Cash and cash equivalents at beginning of year | 109,331 | (1,221) | 4,306 | 112,416 |
| Cash and cash equivalents at end of period | \$ 131,776 | \$ 314 | \$ 5,367 | \$ 137,457 |

For the nine months ended September 30, 2009

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidated |
|---|------------|---------------------------|-------------------------------|--------------|
| Cash Flow from Operating Activities: | | | | |
| Net cash provided/(used) by operating activities | \$(2,579) | \$ 77,254 | \$ 5,872 | \$ 80,547 |
| Cash Flow from Investing Activities: | | | | |
| Capital expenditures | (44) | (14,007) | (420) | (14,471) |
| Business combinations, net of cash acquired | - | (1,859) | - | (1,859) |
| Proceeds from sale of property and equipment | 1,286 | 233 | - | 1,519 |
| Other uses - net | (458) | (676) | 184 | (950) |
| Net cash provided/(used) by investing activities | 784 | (16,309) | (236) | (15,761) |
| Cash Flow from Financing Activities: | | | | |
| Change in cash overdrafts payable | (602) | 1,545 | - | 943 |
| Change in intercompany accounts | 69,635 | (64,031) | (5,604) | - |
| Dividends paid to shareholders | (5,429) | - | - | (5,429) |
| Purchases of treasury stock | (1,684) | - | - | (1,684) |
| Proceeds from exercise of stock options | 486 | - | - | 486 |
| Realized excess tax benefit on share based compensation | 1,519 | - | - | 1,519 |
| Repayment of long-term debt | (22,700) | (99) | - | (22,799) |
| Other sources/(uses) - net | (84) | 262 | 419 | 597 |
| Net cash provided/ (used) by financing activities | 41,141 | (62,323) | (5,185) | (26,367) |
| Net increase/(decrease) in cash and cash equivalents | 39,346 | (1,378) | 451 | 38,419 |
| Cash and cash equivalents at beginning of year | 65 | 202 | 3,361 | 3,628 |
| Cash and cash equivalents at end of period | \$ 39,411 | \$ (1,176) | \$ 3,812 | \$ 42,047 |

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

Executive Summary

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | | |
|-----------------------------------|-------------------------------------|-----------|------------------------------------|-----------|---|
| | 2010 | 2009 | 2010 | 2009 | |
| Service revenues and sales | \$320,451 | \$296,794 | \$944,259 | \$886,987 | |
| Net income | \$20,988 | \$19,210 | \$59,201 | \$55,799 | |
| Diluted EPS | \$0.91 | \$0.84 | \$2.57 | \$2.46 | |
| Adjusted EBITDA* | \$46,280 | \$43,496 | \$134,237 | \$129,370 | |
| Adjusted EBITDA as a % of revenue | 14.4 | % 14.7 | % 14.2 | % 14.6 | % |

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

For the three months ended September 30, 2010, the increase in consolidated service revenues and sales was driven by a 7.8% increase at VITAS while Roto-Rooter revenues increased by 8.5%. The increase in service revenues at VITAS was a result of increased average daily census ("ADC") of 6.1%, driven by an increase in admissions of 5.4%, combined with Medicare price increases of approximately 1.3%. Roto-Rooter was driven by an approximate 9.3% price and mix shift increase offset by a 0.4% decrease in job count. Consolidated net income increased 9.3% mainly as a result of the increase in revenues. Diluted EPS increased as the result of increased earnings. Adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") for the third quarter of 2010 increased 6.4% from the third quarter of 2009 mainly as a result of increased earnings.

For the nine months ended September 30, 2010, the increase in consolidated service revenues and sales was driven by a 7.3% increase at VITAS and a 4.2% increase at Roto-Rooter. The increase in service revenues at VITAS was a result of increased average daily census ("ADC") of 5.6%, driven by an increase in admissions of 4.8%, combined with Medicare price increases of approximately 1.3%. Roto-Rooter was driven by an approximate 7.3% price and mix shift increase offset by a 2.9% decrease in job count. Consolidated net income increased 6.1% over prior year. Diluted EPS increased as a result of increased earnings. Adjusted EBITDA for the nine month period ended September 30, 2010 increased 3.8% when compared to the same period in 2009 mainly as a result of increased earnings.

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

with GAAP. A reconciliation of our net income to our Adjusted EBITDA is presented on pages 27 - 28.

VITAS expects to achieve full-year 2010 revenue growth, prior to Medicare cap and BNAF, of 7.5% to 8.2%. Admissions are estimated to increase 4.0% to 5.0%. Adjusted EBITDA margin prior to Medicare cap is estimated to be 15.3% to 15.6%. Roto-Rooter expects full-year 2010 revenue growth of 4.5% to 5.5%. The revenue estimate is a result of increased pricing of 3.0%, a favorable mix shift to higher revenue jobs, offset by a job count decline estimated at 2.0% to 3.0%. Adjusted EBITDA margin for 2010 is estimated to be in the range of 17.5% to 18.0%. We anticipate that our operating income and cash flows will be sufficient to operate our businesses and meet any commitments for the foreseeable future.

Financial Condition

Liquidity and Capital Resources

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

A \$52.2 million increase in accounts receivable primarily at VITAS, related to timing of Medicare payments and refund of overpayments from prior years. The balance at September 30, 2010 is comparable with the balance at September 30, 2009.

A \$4.5 million increase in income taxes payable, related to timing of payments.

A \$10.5 million increase in accrued compensation due primarily to the timing of payroll disbursements in the current period versus prior year end.

Net cash provided by operating activities decreased \$22.6 million due primarily to the increase in accounts receivable, partially offset by the increase in net income and decrease in accounts payable and other current liabilities. Management continually evaluates cash utilization alternatives, including share repurchase, debt repurchase, acquisitions and increased dividends to determine the most beneficial use of available capital resources.

We have issued \$28.2 million in standby letters of credit as of September 30, 2010, for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of September 30, 2010, we have approximately \$146.8 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the \$100 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. In connection therewith, we are in compliance with all financial and other debt covenants as of September 30, 2010 and anticipate remaining in compliance throughout 2010.

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

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

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

which the Court of Appeals affirmed. The government continues to investigate the complaint's allegations. In March 2009, we received a letter from the government reiterating the basis of their investigation.

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

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

Results of Operations

Three months ended September 30, 2010 versus 2009 - Consolidated Results

Our service revenues and sales for the third quarter of 2010 increased 8.0% versus services and sales revenues for the third quarter of 2009. Of this increase, \$16.9 million was attributable to VITAS and \$6.8 million was attributable to Roto-Rooter. The following chart shows the components of those changes (dollar amounts in thousands):

| | Increase/(Decrease) | | | |
|-------------------|---------------------|---------|---|--|
| | Amount | Percent | | |
| VITAS | | | | |
| Routine homecare | \$ 12,227 | 7.8 | % | |
| Continuous care | 2,838 | 7.9 | % | |
| General inpatient | 1,906 | 7.9 | % | |
| Medicare cap | (74) | -172.1 | % | |
| Roto-Rooter | | | | |
| Plumbing | 6,026 | 16.7 | % | |
| Drain cleaning | 185 | 0.6 | % | |
| Other | 549 | 4.6 | % | |
| Total | \$ 23,657 | 8.0 | % | |

The increase in VITAS' revenues for the third quarter of 2010 versus the third quarter of 2009 was a result of increased ADC of 6.1% driven by an increase in admissions of 5.4%, combined with Medicare reimbursement rate increases of approximately 1.3%. The ADC increase was driven by a 6.1% increase in routine homecare, an increase of 5.2% in general inpatient and a 6.0% increase in continuous care. In excess of 90% of VITAS' service revenues for the period were from Medicare and Medicaid.

The increase in plumbing revenues for the third quarter of 2010 versus 2009 is attributable to a 13.5% increase in the average price per job and a 3.2% increase in the number of jobs performed. The increase in the plumbing price per job was a combination of increased pricing and favorable job mix shift to more expensive jobs such as excavation. Our excavation job count increased by 14.6% compared to 2009. On average, the price per job for our excavation jobs is approximately 5.5 times greater than the price per job of other plumbing jobs. Drain cleaning revenues for the third quarter of 2010 versus 2009 reflect a 3.0% increase in the average price per jobs, while the job count decreased 2.3%. The increase in other revenues is attributable to an increase in our independent contractor operations and an increase in product sales.

The consolidated gross margin was 28.9% in the third quarter of 2010 as compared with 29.6% in the third quarter of 2009. On a segment basis, VITAS' gross margin was 23.1% in the third quarter of 2010 and 23.4% in the third quarter of 2009. The decrease in VITAS' gross margin is attributable to higher labor costs for admissions and Medicare compliance personnel and the opening of inpatient units which carry significant one time start-up costs as capacity begins to ramp-up. The Roto-Rooter segment's gross margin was 44.6% for the third quarter of 2010 as compared with 46.4% for the third quarter of 2009. The decrease in Roto-Rooter's gross margin was attributable to continued mix shift to excavation which has higher revenue per job but a slightly lower gross margin percentage per job. An unfavorable adjustment to medical insurance also contributed to the margin decline.

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

| | Three Months Ended September 30, | |
|---|-------------------------------------|-----------|
| | 2010 | 2009 |
| SG&A expenses before the impact of market gains of deferred compensation plans | \$ 47,957 | \$ 46,359 |
| Impact of market value gains on liabilities held in deferred compensation trusts | 243 | 1,789 |
| Total SG&A expenses | \$ 48,200 | \$ 48,148 |

Normal salary increases and revenue related expense increases between periods accounts for the 3.4% increase in SG&A expenses before the impact of market gains of deferred compensation plans from \$46.4 million in the third quarter of 2009 to \$48.0 million in the third quarter of 2010.

Depreciation expense increased \$1.0 million to \$6.4 million in the third quarter of 2010 due to the installation of patient capture software at our VITAS segment in the second quarter of 2010.

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

| | Three Months Ended September 30, | |
|--|-------------------------------------|----------|
| | 2010 | 2009 |
| Interest income | \$ 109 | \$ 86 |
| Market value gains on assets held in deferred compensation trusts | 243 | 1,789 |
| Loss on disposal of property and equipment | (141) | (159) |
| Other | 11 | 17 |
| Total other income | \$ 222 | \$ 1,733 |

Our effective income tax rate decreased to 38.2% in the third quarter of 2010 from 39.3% when compared with the third quarter of 2009. This decrease relates primarily to a \$236,000 tax adjustment required upon expiration of certain statutes.

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

| | 2010 | 2009 |
|---|------------|------------|
| VITAS | | |
| Costs associated with the OIG investigation | \$(69) | \$(213) |
| Roto-Rooter | | |
| Costs of class action lawsuit | (194) | - |
| Corporate | | |
| Stock option expense | (1,244) | (1,401) |
| Noncash interest expense related to accounting for conversion feature of the convertible notes | (1,088) | (1,006) |
| Total | \$(2,595) | \$(2,620) |

Three months ended September 30, 2010 versus 2009 - Segment Results

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

| | Increase/(Decrease) | | |
|-------------|---------------------|---------|---|
| | Amount | Percent | |
| VITAS | \$ 1,655 | 9.1 | % |
| Roto-Rooter | (188) | -2.4 | % |
| Corporate | 311 | 4.5 | % |
| | \$ 1,778 | 9.3 | % |

Nine months ended September 30, 2010 versus 2009 - Consolidated Results

Our service revenues and sales for the first nine months of 2010 increased 6.5% versus services and sales revenues for the first nine months of 2009. Of this increase, \$46.8 million was attributable to VITAS and \$10.5 million was attributable to Roto-Rooter. The following chart shows the components of those changes (dollars in thousands):

| | Increase/(Decrease) | | |
|-------------------|---------------------|---------|---|
| | Amount | Percent | |
| VITAS | | | |
| Routine homecare | \$ 33,884 | 7.4 | % |
| Continuous care | 7,909 | 7.5 | % |
| General inpatient | 5,438 | 7.5 | % |
| Medicare cap | 1,474 | 767.7 | % |
| BNAF | (1,950) | -100.0 | % |
| Roto-Rooter | | | |
| Plumbing | 11,194 | 10.0 | % |
| Drain cleaning | (2,003) | -2.0 | % |
| Other | 1,326 | 3.7 | % |
| Total | \$ 57,272 | 6.5 | % |

The increase in VITAS' revenues for the first nine months of 2010 versus the first nine months of 2009 was a result of increased ADC of 5.6% driven by an increase in admissions of 4.8%, combined with Medicare reimbursement rate increases of approximately 1.3%. The ADC increase was driven by a 5.6% increase in routine homecare, an increase of 6.7% in general inpatient and a 5.3% increase in continuous care. In excess of 90% of VITAS' service revenues for the period were from Medicare and Medicaid.

The increase in plumbing revenues for the first nine months of 2010 versus 2009 is attributable to a 9.7% increase in the average price per job and a 0.8% increase in the number of jobs performed. The increase in the plumbing price per job was a combination of increased pricing and favorable job mix shift to more expensive jobs such as excavation. Our excavation job count increased by 15.2% compared to 2009. On average, the price per job for our excavation jobs is approximately 5.5 times greater than the price per job of other plumbing jobs. Drain cleaning revenues for the first nine months of 2010 versus 2009 reflect a 2.8% increase in the price per job offset by a 4.7% decrease in the number of jobs. The increase in other revenues is attributable to an increase in our independent contractor operations and an increase in product sales.

The consolidated gross margin was 29.0% in the first nine months of 2010 as compared with 29.7% in the first nine months of 2009. On a segment basis, VITAS' gross margin was 22.9% in the first nine months of 2010 and 23.4% in the first nine months of 2009. The decrease in VITAS' gross margin is attributable to higher labor costs for admissions and Medicare compliance personnel and the opening of inpatient units which carry significant one time start-up costs as capacity begins to ramp-up. The Roto-Rooter segment's gross margin was 45.0% for the first nine months of 2010 as compared with 45.9% for the first nine months of 2009. The decrease in Roto-Rooter's gross margin is attributable to continued mix shift to excavation which has higher revenue per job but slightly lower gross margin percentage per job.

Selling, general and administrative expenses (“SG&A”) for the first nine months of 2010 and comprise (in thousands):

| | Nine Months Ended September 30, | |
|---|------------------------------------|------------|
| | 2010 | 2009 |
| SG&A expenses before long-term incentive compensation and the impact of market gains of deferred compensation plans | \$ 144,547 | \$ 140,147 |
| Long-term incentive compensation | 1,799 | - |
| Impact of market value gains on liabilities held in deferred compensation trusts | 348 | 3,374 |
| Total SG&A expenses | \$ 146,694 | \$ 143,521 |

Normal salary increases and revenue related expense increases between periods account for the 3.1% increase in SG&A expenses before long-term incentive compensation and the impact of market gains of deferred compensation plans from \$140.1 million for the first nine months of 2009 to \$144.5 million for the first nine months of 2010.

Depreciation expense increased \$2.0 million in the first nine months of 2010 to \$18.0 million due to the installation of patient capture software at our VITAS segment in the second quarter of 2010.

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

| | Nine Months Ended September 30, | |
|---|------------------------------------|----------|
| | 2010 | 2009 |
| Interest income | \$ 334 | \$ 375 |
| Market value gains on assets held in deferred compensation trusts | 348 | 3,374 |
| Loss on disposal of property and equipment | (293) | (213) |
| Non-taxable income from certain investments held deferred compensation trusts | - | 1,211 |
| Other | 29 | 68 |
| Total other income | \$ 418 | \$ 4,815 |

Our effective income tax rate of 38.7% in the first nine months of 2010 decreased from 39.0% in the first nine months of 2009.

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

| | 2010 | | 2009 |
|---|-------------|--|-------------|
| VITAS | | | |
| Costs associated with the OIG investigation | \$ (242) | | \$ (274) |
| Roto-Rooter | | | |
| Costs of class action lawsuit | (257) | | - |
| Corporate | | | |
| Stock option expense | (4,026) | | (4,237) |
| Long-term incentive compensation | (1,124) | | - |
| Noncash interest expense related to accounting for conversion feature of the convertible notes | (3,203) | | (2,961) |
| Expenses of contested proxy solicitation | - | | (2,525) |
| Impact of non-deductible losses and non-taxable gains on investments held in deferred compensation trusts | - | | 756 |
| Total | \$ (8,852) | | \$ (9,241) |

Nine months ended September 30, 2010 versus 2009 - Segment Results

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

| | Increase/(Decrease) | | |
|-------------|---------------------|---------|---|
| | Amount | Percent | |
| VITAS | \$ 4,081 | 7.8 | % |
| Roto-Rooter | (542) | -2.2 | % |
| Corporate | (137) | -0.6 | % |
| | \$ 3,402 | 6.1 | % |

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

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|------------|-------------|-------------|------------------------|
| 2010 (a) | | | | |
| Service revenues and sales | \$ 233,964 | \$ 86,487 | \$ - | \$ 320,451 |
| Cost of services provided and goods sold | 179,997 | 47,918 | - | 227,915 |
| Selling, general and administrative expenses | 18,370 | 24,573 | 5,257 | 48,200 |
| Depreciation | 4,321 | 1,925 | 139 | 6,385 |
| Amortization | 694 | 133 | 369 | 1,196 |
| Total costs and expenses | 203,382 | 74,549 | 5,765 | 283,696 |
| Income/(loss) from operations | 30,582 | 11,938 | (5,765) | 36,755 |
| Interest expense | (48) | (55) | (2,892) | (2,995) |
| Intercompany interest income/(expense) | 1,139 | 651 | (1,790) | - |
| Other income/(expense)—net | (92) | 11 | 303 | 222 |
| Income/(loss) before income taxes | 31,581 | 12,545 | (10,144) | 33,982 |
| Income taxes | (11,778) | (4,798) | 3,582 | (12,994) |
| Net income/(loss) | \$ 19,803 | \$ 7,747 | \$ (6,562) | \$ 20,988 |

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

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|-----------|-------------|-------------|------------------------|
| Pretax benefit/(cost): | | | | |
| Stock option expense | \$ - | \$ - | \$ (1,968) | \$ (1,968) |
| Noncash impact of accounting for convertible debt | - | - | (1,721) | (1,721) |
| Expenses of class action lawsuit | - | (322) | - | (322) |
| Expenses incurred in connection with the Office of Inspector General investigation | (112) | - | - | (112) |
| Total | \$ (112) | \$ (322) | \$ (3,689) | \$ (4,123) |

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| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|----------|-------------|-------------|------------------------|
| After-tax benefit/(cost): | | | | |
| Stock option expense | \$ - | \$ - | \$ (1,244) | \$ (1,244) |
| Noncash impact of accounting for convertible debt | - | - | (1,088) | (1,088) |
| Expenses of class action lawsuit | - | (194) | - | (194) |
| Expenses incurred in connection with the Office of Inspector General investigation | (69) | - | - | (69) |
| Total | \$ (69) | \$ (194) | \$ (2,332) | \$ (2,595) |

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

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|---|------------|-------------|-------------|------------------------|
| 2009 (a) | | | | |
| Service revenues and sales | \$ 217,067 | \$ 79,727 | \$ - | \$ 296,794 |
| Cost of services provided and goods sold | 166,183 | 42,705 | - | 208,888 |
| Selling, general and administrative expenses | 18,227 | 22,740 | 7,181 | 48,148 |
| Depreciation | 3,292 | 2,005 | 64 | 5,361 |
| Amortization | 1,179 | 117 | 315 | 1,611 |
| Total costs and expenses | 188,881 | 67,567 | 7,560 | 264,008 |
| Income/(loss) from operations | 28,186 | 12,160 | (7,560) | 32,786 |
| Interest expense | (51) | (43) | (2,759) | (2,853) |
| Intercompany interest income/(expense) | 1,178 | 684 | (1,862) | - |
| Other income/(expense)-net | (86) | 15 | 1,804 | 1,733 |
| Income/(loss) before income taxes | 29,227 | 12,816 | (10,377) | 31,666 |
| Income taxes | (11,079) | (4,881) | 3,504 | (12,456) |
| Net income/(loss) | \$ 18,148 | \$ 7,935 | \$ (6,873) | \$ 19,210 |

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

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|-----------|-------------|-------------|------------------------|
| Pretax benefit/(cost): | | | | |
| Stock option expense | \$ - | \$ - | \$ (2,214) | \$ (2,214) |
| Noncash impact of accounting for convertible debt | - | - | (1,591) | (1,591) |
| Expenses incurred in connection with the Office of Inspector General investigation | (343) | - | - | (343) |
| Total | \$ (343) | \$ - | \$ (3,805) | \$ (4,148) |

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|---|-------|-------------|-------------|------------------------|
| After-tax benefit/(cost): | | | | |
| Stock option expense | \$ - | \$ - | \$ (1,401) | \$ (1,401) |
| Noncash impact of accounting for convertible debt | - | - | (1,006) | (1,006) |
| Expenses incurred in connection with the Office of Inspector | | | | |

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| | | | | |
|-----------------------|-----------|------|-------------|-------------|
| General investigation | (213) | - | - | (213) |
| Total | \$ (213) | \$ - | \$ (2,407) | \$ (2,620) |

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

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|------------|-------------|--------------|---------------------|
| 2010 (a) | | | | |
| Service revenues and sales | \$ 683,542 | \$ 260,717 | \$ - | \$ 944,259 |
| Cost of services provided and goods sold | 527,347 | 143,407 | - | 670,754 |
| Selling, general and administrative expenses | 54,920 | 73,523 | 18,251 | 146,694 |
| Depreciation | 11,909 | 5,826 | 313 | 18,048 |
| Amortization | 2,253 | 388 | 1,066 | 3,707 |
| Total costs and expenses | 596,429 | 223,144 | 19,630 | 839,203 |
| Income/(loss) from operations | 87,113 | 37,573 | (19,630) | 105,056 |
| Interest expense | (127) | (187) | (8,632) | (8,946) |
| Intercompany interest income/(expense) | 3,778 | 2,126 | (5,904) | - |
| Other income/(expense)—net | (85) | 35 | 468 | 418 |
| Income/(loss) before income taxes | 90,679 | 39,547 | (33,698) | 96,528 |
| Income taxes | (34,156) | (15,127) | 11,956 | (37,327) |
| Net income/(loss) | \$ 56,523 | \$ 24,420 | \$ (21,742) | \$ 59,201 |

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

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|-----------|-------------|--------------|---------------------|
| Pretax benefit/(cost): | | | | |
| Stock option expense | \$ - | \$ - | \$ (6,365) | \$ (6,365) |
| Long-term incentive compensation | - | - | (1,799) | (1,799) |
| Noncash impact of accounting for convertible debt | - | - | (5,064) | (5,064) |
| Expenses of class action lawsuit | - | (427) | - | (427) |
| Expenses incurred in connection with the Office of Inspector General investigation | (390) | - | - | (390) |
| Total | \$ (390) | \$ (427) | \$ (13,228) | \$ (14,045) |

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|---------------------------|-------|-------------|-----------|---------------------|
| After-tax benefit/(cost): | | | | |

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| | | | | |
|--|-----------|-----------|-------------|-------------|
| Stock option expense | \$ - | \$ - | \$ (4,026) | \$ (4,026) |
| Long-term incentive compensation | - | - | (1,124) | (1,124) |
| Noncash impact of accounting for convertible debt | - | - | (3,203) | (3,203) |
| Expenses of class action lawsuit | - | (257) | - | (257) |
| Expenses incurred in connection with the Office of Inspector General investigation | (242) | - | - | (242) |
| Total | \$ (242) | \$ (257) | \$ (8,353) | \$ (8,852) |

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

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|------------|-------------|--------------|---------------------|
| 2009 (a) | | | | |
| Service revenues and sales | \$ 636,787 | \$ 250,200 | \$ - | \$ 886,987 |
| Cost of services provided and goods sold | 487,990 | 135,248 | - | 623,238 |
| Selling, general and administrative expenses | 53,650 | 69,959 | 19,912 | 143,521 |
| Depreciation | 9,767 | 6,094 | 163 | 16,024 |
| Amortization | 3,537 | 323 | 905 | 4,765 |
| Other operating expenses | - | - | 3,989 | 3,989 |
| Total costs and expenses | 554,944 | 211,624 | 24,969 | 791,537 |
| Income/(loss) from operations | 81,843 | 38,576 | (24,969) | 95,450 |
| Interest expense | (415) | (138) | (8,286) | (8,839) |
| Intercompany interest income/(expense) | 3,091 | 1,801 | (4,892) | - |
| Other income-net | 35 | 137 | 4,643 | 4,815 |
| Income/(loss) before income taxes | 84,554 | 40,376 | (33,504) | 91,426 |
| Income taxes | (32,112) | (15,414) | 11,899 | (35,627) |
| Net income/(loss) | \$ 52,442 | \$ 24,962 | \$ (21,605) | \$ 55,799 |

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

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|-----------|-------------|--------------|---------------------|
| Pretax benefit/(cost): | | | | |
| Stock option expense | \$ - | \$ - | \$ (6,699) | \$ (6,699) |
| Noncash impact of accounting for convertible debt | - | - | (4,682) | (4,682) |
| Non-taxable income on certain investments held in deferred compensation trusts | - | - | 1,211 | 1,211 |
| Expenses associated with contested proxy solicitation | - | - | (3,989) | (3,989) |
| Expenses incurred in connection with the Office of Inspector General investigation | (442) | - | - | (442) |
| Total | \$ (442) | \$ - | \$ (14,159) | \$ (14,601) |

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|---------------------------|-------|-------------|-----------|---------------------|
| After-tax benefit/(cost): | | | | |

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| | | | | |
|---|-----------|------|-------------|-------------|
| Stock option expense | \$ - | \$ - | \$ (4,237) | \$ (4,237) |
| Noncash impact of accounting for convertible debt | - | - | (2,961) | (2,961) |
| Non-taxable income on certain investments held in deferred compensation trusts | - | - | 1,211 | 1,211 |
| Income tax impact of nondeductible losses on investments held in deferred compensation trusts | - | - | (455) | (455) |
| Expenses associated with contested proxy solicitation | - | - | (2,525) | (2,525) |
| Expenses incurred in connection with the Office of Inspector General investigation | (274) | - | - | (274) |
| Total | \$ (274) | \$ - | \$ (8,967) | \$ (9,241) |

Consolidating Summary and Reconciliation of Adjusted EBITDA

Chemed Corporation and
Subsidiary Companies
(in thousands)

For the three months ended
September 30, 2010

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|---|-----------|-------------|-------------|------------------------|
| Net income/(loss) | \$ 19,803 | \$ 7,747 | \$ (6,562) | \$ 20,988 |
| Add/(deduct): | | | | |
| Interest expense | 48 | 55 | 2,892 | 2,995 |
| Income taxes | 11,778 | 4,798 | (3,582) | 12,994 |
| Depreciation | 4,321 | 1,925 | 139 | 6,385 |
| Amortization | 694 | 133 | 369 | 1,196 |
| EBITDA | 36,644 | 14,658 | (6,744) | 44,558 |
| Add/(deduct): | | | | |
| Legal expenses of OIG investigation | 112 | - | - | 112 |
| Stock option expense | - | - | 1,968 | 1,968 |
| Advertising cost adjustment | - | (571) | - | (571) |
| Expenses of class action litigation | - | 322 | - | 322 |
| Interest income | (37) | (10) | (62) | (109) |
| Intercompany interest income/(expense) | (1,139) | (651) | 1,790 | - |
| Adjusted EBITDA | \$ 35,580 | \$ 13,748 | \$ (3,048) | \$ 46,280 |

For the three months ended
September 30, 2009

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|---|-----------|-------------|-------------|------------------------|
| Net income/(loss) | \$ 18,148 | \$ 7,935 | \$ (6,873) | \$ 19,210 |
| Add/(deduct): | | | | |
| Interest expense | 51 | 43 | 2,759 | 2,853 |
| Income taxes | 11,079 | 4,881 | (3,504) | 12,456 |
| Depreciation | 3,292 | 2,005 | 64 | 5,361 |
| Amortization | 1,179 | 117 | 315 | 1,611 |
| EBITDA | 33,749 | 14,981 | (7,239) | 41,491 |
| Add/(deduct): | | | | |
| Legal expenses of OIG investigation | 343 | - | - | 343 |
| Stock option expense | - | - | 2,214 | 2,214 |
| Advertising cost adjustment | - | (466) | - | (466) |
| Interest income | (53) | (9) | (24) | (86) |
| Intercompany interest income/(expense) | (1,178) | (684) | 1,862 | - |
| Adjusted EBITDA | \$ 32,861 | \$ 13,822 | \$ (3,187) | \$ 43,496 |

Consolidating Summary and Reconciliation of Adjusted EBITDA

Chemed Corporation and
Subsidiary Companies
(in thousands)

For the nine months ended
September 30, 2010

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|---|------------|-------------|--------------|------------------------|
| Net income/(loss) | \$ 56,523 | \$ 24,420 | \$ (21,742) | \$ 59,201 |
| Add/(deduct): | | | | |
| Interest expense | 127 | 187 | 8,632 | 8,946 |
| Income taxes | 34,156 | 15,127 | (11,956) | 37,327 |
| Depreciation | 11,909 | 5,826 | 313 | 18,048 |
| Amortization | 2,253 | 388 | 1,066 | 3,707 |
| EBITDA | 104,968 | 45,948 | (23,687) | 127,229 |
| Add/(deduct): | | | | |
| Legal expenses of OIG investigation | 390 | - | - | 390 |
| Stock option expense | - | - | 6,365 | 6,365 |
| Advertising cost adjustment | - | (1,639) | - | (1,639) |
| Expenses of class action litigation | - | 427 | - | 427 |
| Long-term incentive compensation | - | - | 1,799 | 1,799 |
| Interest income | (172) | (37) | (125) | (334) |
| Intercompany interest income/(expense) | (3,778) | (2,126) | 5,904 | - |
| Adjusted EBITDA | \$ 101,408 | \$ 42,573 | \$ (9,744) | \$ 134,237 |

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|-----------|-------------|--------------|------------------------|
| For the nine months ended September 30, 2009 | | | | |
| Net income/(loss) | \$ 52,442 | \$ 24,962 | \$ (21,605) | \$ 55,799 |
| Add/(deduct): | | | | |
| Interest expense | 415 | 138 | 8,286 | 8,839 |
| Income taxes | 32,112 | 15,414 | (11,899) | 35,627 |
| Depreciation | 9,767 | 6,094 | 163 | 16,024 |
| Amortization | 3,537 | 323 | 905 | 4,765 |
| EBITDA | 98,273 | 46,931 | (24,150) | 121,054 |
| Add/(deduct): | | | | |
| Non-taxable income from certain investments held in deferred compensation trusts | - | - | (1,211) | (1,211) |
| Expenses associated with contested proxy solicitation | - | - | 3,989 | 3,989 |
| Legal expenses of OIG investigation | 442 | - | - | 442 |

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| | | | | |
|---|-----------|-----------|-------------|------------|
| Stock option expense | - | - | 6,699 | 6,699 |
| Advertising cost adjustment | - | (1,228) | - | (1,228) |
| Interest income | (250) | (44) | (81) | (375) |
| Intercompany interest income/(expense) | (3,091) | (1,801) | 4,892 | - |
| Adjusted EBITDA | \$ 95,374 | \$ 43,858 | \$ (9,862) | \$ 129,370 |

**CHEMED CORPORATION AND SUBSIDIARY COMPANIES
OPERATING STATISTICS FOR VITAS SEGMENT**

(unaudited)

| OPERATING STATISTICS | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|----------------------------------|---|------------|---|---------------------------------|---|------------|---|
| | 2010 | | 2009 | | 2010 | | 2009 | |
| Net revenue (\$000) | | | | | | | | |
| Homecare | \$ 169,306 | | \$ 157,079 | | \$ 490,044 | | \$ 456,160 | |
| Inpatient | 25,963 | | 24,057 | | 78,244 | | 72,806 | |
| Continuous care | 38,812 | | 35,974 | | 113,588 | | 105,679 | |
| Total before Medicare cap allowance and 2008 BNAF | \$ 234,081 | | \$ 217,110 | | \$ 681,876 | | \$ 634,645 | |
| Estimated BNAF | - | | - | | - | | 1,950 | |
| Medicare cap allowance | (117) | | (43) | | 1,666 | | 192 | |
| Total | \$ 233,964 | | \$ 217,067 | | \$ 683,542 | | \$ 636,787 | |
| Net revenue as a percent of total | | | | | | | | |
| before Medicare cap allowance | | | | | | | | |
| Homecare | 72.3 | % | 72.3 | % | 71.8 | % | 71.8 | % |
| Inpatient | 11.1 | | 11.1 | | 11.5 | | 11.5 | |
| Continuous care | 16.6 | | 16.6 | | 16.7 | | 16.7 | |
| Total before Medicare cap allowance and 2008 BNAF | 100.0 | | 100.0 | | 100.0 | | 100.0 | |
| Estimated BNAF | - | | - | | - | | 0.3 | |
| Medicare cap allowance | (0.1) | | - | | 0.2 | | - | |
| Total | 99.9 | % | 100.0 | % | 100.2 | % | 100.3 | % |
| Average daily census (days) | | | | | | | | |
| Homecare | 8,586 | | 7,835 | | 8,350 | | 7,661 | |
| Nursing home | 3,250 | | 3,316 | | 3,212 | | 3,291 | |
| Routine homecare | 11,836 | | 11,151 | | 11,562 | | 10,952 | |
| Inpatient | 425 | | 404 | | 433 | | 406 | |
| Continuous care | 596 | | 562 | | 595 | | 565 | |
| Total | 12,857 | | 12,117 | | 12,590 | | 11,923 | |
| Total Admissions | 14,483 | | 13,735 | | 43,750 | | 41,743 | |
| Total Discharges | 14,076 | | 13,441 | | 42,767 | | 41,064 | |
| Average length of stay (days) | 78.2 | | 78.0 | | 77.1 | | 75.0 | |
| Median length of stay (days) | 15.0 | | 14.0 | | 14.0 | | 14.0 | |
| ADC by major diagnosis | | | | | | | | |
| Neurological | 33.4 | % | 33.1 | % | 33.2 | % | 33.0 | % |
| Cancer | 18.5 | | 19.1 | | 18.4 | | 19.2 | |
| Cardio | 11.9 | | 12.2 | | 11.9 | | 12.2 | |
| Respiratory | 6.5 | | 6.2 | | 6.6 | | 6.5 | |
| Other | 29.7 | | 29.4 | | 29.9 | | 29.1 | |
| Total | 100.0 | % | 100.0 | % | 100.0 | % | 100.0 | % |

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| | | | | | | | | |
|---|-----------|---|-----------|---|-----------|---|-----------|---|
| Admissions by major diagnosis | | | | | | | | |
| Neurological | 18.4 | % | 17.9 | % | 18.6 | % | 17.9 | % |
| Cancer | 35.8 | | 36.8 | | 34.6 | | 35.6 | |
| Cardio | 11.1 | | 11.1 | | 11.3 | | 11.8 | |
| Respiratory | 7.5 | | 6.8 | | 8.1 | | 7.5 | |
| Other | 27.2 | | 27.4 | | 27.4 | | 27.2 | |
| Total | 100.0 | % | 100.0 | % | 100.0 | % | 100.0 | % |
| Direct patient care margins | | | | | | | | |
| Routine homecare | 52.7 | % | 51.7 | % | 52.2 | % | 51.8 | % |
| Inpatient | 12.3 | | 12.8 | | 13.3 | | 15.7 | |
| Continuous care | 21.1 | | 20.6 | | 21.0 | | 20.3 | |
| Homecare margin drivers (dollars per patient day) | | | | | | | | |
| Labor costs | \$ 51.97 | | \$ 52.56 | | \$ 52.79 | | \$ 52.40 | |
| Drug costs | 7.89 | | 7.59 | | 7.78 | | 7.65 | |
| Home medical equipment | 6.54 | | 7.03 | | 6.71 | | 6.85 | |
| Medical supplies | 2.66 | | 2.48 | | 2.53 | | 2.37 | |
| Inpatient margin drivers (dollars per patient day) | | | | | | | | |
| Labor costs | \$ 304.42 | | \$ 294.24 | | \$ 297.63 | | \$ 282.74 | |
| Continuous care margin drivers (dollars per patient day) | | | | | | | | |
| Labor costs | \$ 536.83 | | \$ 530.88 | | \$ 531.14 | | \$ 524.84 | |
| Bad debt expense as a percent of revenues | | | | | | | | |
| Accounts receivable -- | 0.9 | % | 1.1 | % | 0.9 | % | 1.1 | % |
| Days of revenue outstanding-excluding unapplied Medicare payments | | | | | | | | |
| | 39.7 | | 52.8 | | n.a. | | n.a. | |
| Days of revenue outstanding-including unapplied Medicare payments | | | | | | | | |
| | 34.9 | | 37.0 | | 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, 2010, we had no variable rate debt outstanding. At September 30, 2010, the fair value of the Notes approximates \$181.1 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 11, Legal and Regulatory Matters, under Part I, Item I of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

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

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

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

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

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

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

Item 3. Defaults Upon Senior Securities

None

Item 4. Removed and Reserved

Item 5. Other Information

None

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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.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 3, 2010 By: Kevin J. McNamara
Kevin J. McNamara
(President and Chief Executive Officer)

Dated: November 3, 2010 By: David P. Williams
David P. Williams

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(Executive Vice President and
Chief Financial Officer)

Dated: November 3, 2010

By: Arthur V. Tucker, Jr.
Arthur V. Tucker, Jr.
(Vice President and Controller)

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