

CHEMED CORP
Form 10-Q
April 29, 2011

UNITED STATES

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

(Mark One)

Quarterly Report Under Section 13 or 15 (d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended March 31, 2011

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 45202
(Address of principal executive offices)

(Zip code)

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

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

Yes No

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

Yes No

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

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

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

Yes No

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

| Class | Amount | Date |
|-----------------------------|-------------------|----------------|
| Capital Stock \$1 Par Value | 21,271,320 Shares | March 31, 2011 |

CHEMED CORPORATION AND
SUBSIDIARY COMPANIES

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

| | March 31, 2011 | December 31, 2010 |
|---|-------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 59,745 | \$ 49,917 |
| Accounts receivable less allowances of \$12,721 (2010 - \$13,332) | 92,912 | 112,999 |
| Inventories | 7,967 | 7,728 |
| Current deferred income taxes | 13,352 | 15,098 |
| Prepaid income taxes | - | 770 |
| Prepaid expenses | 9,538 | 10,285 |
| Total current assets | 183,514 | 196,797 |
| Investments of deferred compensation plans | 31,897 | 28,304 |
| Properties and equipment, at cost, less accumulated depreciation of \$137,433 (2010 - \$132,696) | 79,146 | 79,292 |
| Identifiable intangible assets less accumulated amortization of \$27,788 (2010 - \$27,438) | 56,061 | 56,410 |
| Goodwill | 458,434 | 458,343 |
| Other assets | 13,676 | 11,015 |
| Total Assets | \$ 822,728 | \$ 830,161 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$ 38,249 | \$ 55,829 |
| Income taxes | 8,250 | 1,161 |
| Accrued insurance | 35,511 | 36,492 |
| Accrued compensation | 39,469 | 39,719 |
| Other current liabilities | 14,457 | 16,141 |
| Total current liabilities | 135,936 | 149,342 |
| Deferred income taxes | 24,164 | 25,085 |
| Long-term debt | 161,054 | 159,208 |
| Deferred compensation liabilities | 31,437 | 27,851 |
| Other liabilities | 6,267 | 6,626 |
| Total Liabilities | 358,858 | 368,112 |
| STOCKHOLDERS' EQUITY | | |
| Capital stock - authorized 80,000,000 shares \$1 par; issued 30,709,253 shares (2010 - 30,381,863 shares) | 30,709 | 30,382 |
| Paid-in capital | 379,167 | 365,007 |
| Retained earnings | 488,439 | 473,316 |
| Treasury stock - 9,537,773 shares (2010 - 9,103,185 shares), at cost | (436,427) | (408,615) |
| Deferred compensation payable in Company stock | 1,982 | 1,959 |

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| | | |
|--|------------|------------|
| Total Stockholders' Equity | 463,870 | 462,049 |
| Total Liabilities and Stockholders' Equity | \$ 822,728 | \$ 830,161 |

See accompanying notes to unaudited financial statements.

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

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2011 | 2010 |
| Service revenues and sales | \$330,918 | \$308,813 |
| Cost of services provided and goods sold (excluding depreciation) | 237,458 | 219,137 |
| Selling, general and administrative expenses | 55,654 | 48,538 |
| Depreciation | 6,288 | 5,469 |
| Amortization | 970 | 1,224 |
| Total costs and expenses | 300,370 | 274,368 |
| Income from operations | 30,548 | 34,445 |
| Interest expense | (3,244) | (2,952) |
| Other income | 2,102 | 186 |
| Income before income taxes | 29,406 | 31,679 |
| Income taxes | (11,305) | (12,321) |
| Net income | \$18,101 | \$19,358 |
| | | |
| Earnings Per Share | | |
| Net income | \$0.86 | \$0.86 |
| Average number of shares outstanding | 21,055 | 22,593 |
| | | |
| Diluted Earnings Per Share | | |
| Net income | \$0.84 | \$0.84 |
| Average number of shares outstanding | 21,568 | 23,021 |
| | | |
| Cash Dividends Per Share | \$0.14 | \$0.12 |

See accompanying notes to unaudited financial statements.

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

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------|
| | 2011 | 2010 |
| Cash Flows from Operating Activities | | |
| Net income | \$18,101 | \$19,358 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 7,258 | 6,693 |
| Noncash long-term incentive compensation | 2,595 | - |
| Provision for uncollectible accounts receivable | 2,111 | 2,472 |
| Stock option expense | 1,933 | 2,051 |
| Amortization of discount on convertible notes | 1,846 | 1,726 |
| Provision for deferred income taxes | 814 | (2,282) |
| Changes in operating assets and liabilities, excluding amounts acquired in business combinations: | | |
| Decrease/(increase) in accounts receivable | 17,923 | (36,445) |
| Increase in inventories | (239) | (66) |
| Decrease in prepaid expenses | 747 | 502 |
| Decrease in accounts payable and other current liabilities | (12,137) | (381) |
| Increase in income taxes | 9,739 | 13,955 |
| Increase in other assets | (3,667) | (1,672) |
| Increase in other liabilities | 3,227 | 2,724 |
| Excess tax benefit on share-based compensation | (1,895) | (1,135) |
| Other sources | 185 | 151 |
| Net cash provided by operating activities | 48,541 | 7,651 |
| Cash Flows from Investing Activities | | |
| Capital expenditures | (6,173) | (5,424) |
| Proceeds from sales of property and equipment | 33 | 27 |
| Other uses | (142) | (157) |
| Net cash used by investing activities | (6,282) | (5,554) |
| Cash Flows from Financing Activities | | |
| Purchases of treasury stock | (24,260) | (2,516) |
| Decrease in cash overdrafts payable | (8,310) | (1,216) |
| Proceeds from issuance of capital stock | 3,647 | 2,672 |
| Dividends paid | (2,977) | (2,739) |
| Debt issuance costs | (2,708) | - |
| Excess tax benefit on share-based compensation | 1,895 | 1,135 |
| Other sources | 282 | 270 |
| Net cash used by financing activities | (32,431) | (2,394) |
| Increase/(Decrease) in Cash and Cash Equivalents | 9,828 | (297) |
| Cash and cash equivalents at beginning of year | 49,917 | 112,416 |
| Cash and cash equivalents at end of period | \$59,745 | \$112,119 |

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, 2010 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, 2010.

2. Revenue Recognition

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

As of March 31, 2011, VITAS has approximately \$2.3 million in unbilled revenue included in accounts receivable (December 31, 2010 - \$2.8 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.

Vitas provides charity care, in certain circumstances, to patients without charge when management of the hospice program determines that the patient does not have the financial wherewithal to make payment. There is no revenue or associated accounts receivable in the accompanying consolidated financial statements related to charity care. The cost of charity care was \$1.8 million and \$1.6 million for the three-month periods ended March 31, 2011 and 2010, respectively. The cost of charity care is calculated by taking the ratio of charity care days to total days of care and multiplying by total cost of care.

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

During the three-month period ended March 31, 2011 we reversed Medicare cap liability for amounts recorded in the fourth quarter of 2010 for three programs' projected 2011 measurement period liability. We reversed these amounts as

improving admission trends in these programs indicate that the liability had decreased (one program) or been eliminated (two programs). We also reversed the remaining Medicare cap liability for our Phoenix program due to expiration for the period under review. Shown below is the Medicare cap liability activity for the periods ended March 31, 2011 and 2010 (in thousands):

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| | March 31, | |
|------------------------------------|-----------|----------|
| | 2011 | 2010 |
| Beginning balance January 1, | \$ 1,371 | \$ 1,981 |
| Reversal - 2011 measurement period | (812) | - |
| Reversal - 2010 measurement period | - | (1,749) |
| Other | (198) | - |
| Ending balance March 31, | \$ 361 | \$ 232 |

3. Segments

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

| | Three months ended March 31, | |
|----------------------------|---------------------------------|------------|
| | 2011 | 2010 |
| Service Revenues and Sales | | |
| VITAS | \$ 235,673 | \$ 222,940 |
| Roto-Rooter | 95,245 | 85,873 |
| Total | \$ 330,918 | \$ 308,813 |
| After-tax Earnings | | |
| VITAS | \$ 18,125 | \$ 18,438 |
| Roto-Rooter | 8,511 | 7,813 |
| Total | 26,636 | 26,251 |
| Corporate | (8,535) | (6,893) |
| Net income | \$ 18,101 | \$ 19,358 |

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

4. Earnings per Share

Earnings per share are computed using the weighted average number of shares of capital stock outstanding. Earnings and diluted earnings per share for 2011 and 2010 are computed as follows (in thousands, except per share data):

| For the Three Months Ended March 31, | Net Income | | Earnings per Share |
|---|------------|--------|-----------------------|
| | Income | Shares | |
| 2011 | | | |
| Earnings | \$ 18,101 | 21,055 | \$ 0.86 |
| Dilutive stock options | - | 430 | |
| Nonvested stock awards | - | 83 | |
| Diluted earnings | \$ 18,101 | 21,568 | \$ 0.84 |
| 2010 | | | |
| Earnings | \$ 19,358 | 22,593 | \$ 0.86 |
| Dilutive stock options | - | 346 | |
| Nonvested stock awards | - | 82 | |
| Diluted earnings | \$ 19,358 | 23,021 | \$ 0.84 |

For the three-month period ended March 31, 2011, 979,000 stock options were excluded from the computation of diluted earnings per share as their exercise prices were greater than the average market price for most of the period. For the three-month period ended March 31, 2010, 1.3 million stock options were excluded from the computation of diluted earnings per share.

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

The following table provides examples of how changes in our stock price impact the number of shares that would be included in our diluted earnings per share calculation. 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:

| | Shares Underlying 1.875% | | Total Treasury Method | Shares Due to the Company | Incremental Shares Issued/ (Received) by the Company |
|----------------|--------------------------------|-------------------|---------------------------|---------------------------------|---|
| Share Price | Convertible Notes | Warrant Shares | Incremental Shares (a) | under Notes Hedges | upon Conversion (b) |
| \$ 80.73 | 21,039 | - | 21,039 | (22,507) | (1,468) |
| \$ 90.73 | 276,282 | - | 276,282 | (295,558) | (19,276) |
| \$ 100.73 | 480,846 | - | 480,846 | (514,395) | (33,549) |
| \$ 110.73 | 648,462 | 119,430 | 767,892 | (693,706) | 74,186 |
| \$ 120.73 | 788,311 | 316,603 | 1,104,914 | (843,312) | 261,602 |
| \$ 130.73 | 906,765 | 483,611 | 1,390,376 | (970,030) | 420,346 |

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

b) Represents the number of incremental shares to be issued by the Company upon conversion of the 1.875% Convertible Notes, assuming concurrent settlement of the note hedges and warrants.

5. Long-Term Debt

On March 1, 2011, we replaced our existing credit agreement with our Revolving Credit Facility (“2011 Credit Agreement”). Terms of the 2011 Credit Agreement consist of a five-year, \$350 million revolving credit facility. This 2011 Credit Agreement has a floating interest rate that is currently LIBOR plus 175 basis points. The 2011 Credit Agreement also includes a \$150 million expansion feature. Debt issuance costs associated with the existing credit agreement were not material. The 2011 Credit Agreement contains the following quarterly financial covenants:

| Description | Requirement |
|---|----------------|
| Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA) | < 3.50 to 1.00 |

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Fixed Charge Coverage Ratio (Consolidated Free Cash Flow/Consolidated Fixed Charges) > 1.50 to 1.00

Annual Operating Lease Commitment < \$30.0 million

We are in compliance with all debt covenants as of March 31, 2011. We have issued \$28.0 million in standby letters of credit as of March 31, 2011 for insurance purposes. Issued letters of credit reduce our available credit under the 2011 Credit Agreement. As of March 31, 2011, we have approximately \$322.0 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the \$150 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 to our outstanding Convertible Notes (“Notes”), retrospectively. Upon adoption, the Notes had a discount of approximately \$55.1 million.

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

| | March 31, 2011 | December 31, 2010 |
|--|-------------------|----------------------|
| Principal amount of convertible debentures | \$ 186,956 | \$ 186,956 |
| Unamortized debt discount | (25,902) | (27,748) |
| Carrying amount of convertible debentures | \$ 161,054 | \$ 159,208 |
| Additional paid in capital (net of tax) | \$ 31,310 | \$ 31,310 |

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

| | Three months ended March 31, | |
|--|---------------------------------|----------|
| | 2011 | 2010 |
| Cash interest expense | \$ 1,152 | \$ 1,070 |
| Non-cash amortization of debt discount | 1,846 | 1,726 |
| Amortization of debt costs | 246 | 156 |
| Total interest expense | \$ 3,244 | \$ 2,952 |

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 Income -- Net

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

| | Three months ended March 31, | |
|---|---------------------------------|--------|
| | 2011 | 2010 |
| Market value gains on assets held in deferred compensation trust | \$ 2,064 | \$ 188 |
| Loss on disposal of property and equipment | (21) | (94) |
| Interest income | 61 | 75 |
| Other - net | (2) | 17 |
| Total other income/(expense) | \$ 2,102 | \$ 186 |

7. Stock-Based Compensation Plans

In January 2011, we met a stock price target of \$62.00 under our Long-Term Incentive Plan. On January 14, 2011, the Compensation/Incentive Committee of the Board of Directors (“CIC”) approved a stock grant of 41,100 shares (including 7,350 shares from the discretionary pool) and the related allocation to participants. The cumulative

compensation expense related to the stock grant was \$3.0 million.

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On February 18, 2011, the CIC approved a time-based LTIP award of 42,000 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 award is \$2.7 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, 2011, the CIC approved a grant of 35,713 shares of restricted stock to certain key employees. The restricted shares cliff vest four years from the date of issuance. The cumulative compensation expense related to the restricted stock award is \$2.3 million and will be recognized ratably over the four-year vesting period. We assumed no forfeitures in determining the cumulative compensation expense of the grant.

On February 18, 2011, the CIC approved a grant of 513,100 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 \$9.8 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.

8. Independent Contractor Operations

The Roto-Rooter segment sublicenses with 64 independent contractors to operate certain plumbing repair and drain cleaning businesses in lesser-populated areas of the United States and Canada. We had notes receivable from our independent contractors as of March 31, 2011 totaling \$1.2 million (December 31, 2010 -\$1.1 million). In most cases these loans are fully or partially secured by equipment owned by the contractor. The interest rates on the loans range from zero to 8% per annum and the remaining terms of the loans range from two months to 5 years at March 31, 2011. We recorded the following from our independent contractors:

| | Three months ended March 31, | |
|----------------|---------------------------------|----------|
| | 2011 | 2010 |
| Revenues | \$ 6,512 | \$ 5,655 |
| Pretax profits | 2,987 | 2,383 |

9. Pension and Retirement Plans

All of the Company's plans that provide retirement and similar benefits are defined contribution plans. Expenses for the Company's pension and profit-sharing plans, excess benefit plans and other similar plans were \$4.1 million and \$2.5 million for the three months ended March 31, 2011 and 2010, respectively. These expenses include the impact of market gains and losses on assets held in deferred compensation plans.

10. Legal and Regulatory Matters

Litigation

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

VITAS is party to a class action lawsuit filed in the Superior Court of California, Los Angeles County, in September 2006 by Bernadette Santos, Keith Knoche and Joyce White. This case alleges failure to pay overtime and failure to provide meal and rest periods to a purported class of California admissions nurses, chaplains and sales representatives. The case seeks payment of penalties, interest and Plaintiffs' attorney fees. VITAS contests these

allegations. In December 2009, the trial court denied Plaintiffs' motion for class certification. This decision is currently under appeal. We are unable to estimate our potential liability, if any, with respect to this case.

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

Regulatory Matters

In May 2009, VITAS received an administrative subpoena from the U.S. Department of Justice requesting VITAS deliver to the Office of Inspector General ("OIG") for the Department of Health and Human Services documents, patient records, and policy and procedure manuals for headquarters and its Texas programs concerning hospice services provided for the period January 1, 2003 to the date of the letter. In August 2009, the OIG selected medical records for 59 past and current patients from a Texas program for review. In February 2010, VITAS received a companion civil investigative demand ("CID") from the State of Texas Attorney General's Office, seeking related documents. In September 2010, it received a second CID and a second administrative subpoena seeking related documents. In April 2011, the U.S. Attorney provided the Company with a copy of a qui tam complaint filed under seal in U.S. District Court for the Northern District of Texas. The complaint and all the filings in the action remain under seal. The U.S. Attorney has not decided whether to intervene in the action. We are conferring with the U.S. Attorney regarding the Company's defenses to the complaint's allegations. We can neither predict the outcome of this investigation nor estimate our potential liability, if any. We believe that we are in compliance with Medicare and Medicaid rules and regulations applicable to hospice providers.

In April 2005, the OIG served VITAS with civil subpoenas relating to VITAS' alleged failure to appropriately bill Medicare and Medicaid for hospice services. As part of this investigation, the OIG selected medical records for 320 past and current patients from VITAS' three largest programs for review. It also sought policies and procedures dating back to 1998 covering admissions, certifications, recertifications and discharges. During the third quarter of 2005 and again in May 2006, the OIG requested additional information from us. The Court dismissed a related qui tam complaint filed in U.S. District Court for the Southern District of Florida with prejudice in July 2007. The plaintiffs appealed this dismissal, which the Court of Appeals affirmed. The government continues to investigate the complaint's allegations. In March 2009, we received a letter from the government reiterating the basis of their investigation. We are unable to estimate our potential liability, if any, with respect to this matter. We believe that we are in 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. Regardless of outcome, responding to the subpoenas can adversely affect us through defense costs, diversion of our time and related publicity.

11. 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 \$9.3 million and \$8.6 million for the three months ended March 31, 2011 and 2010, 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. We believe that the terms of the Agreements are no less favorable to VITAS than we could negotiate with an unrelated party.

12. Cash Overdrafts and Cash Equivalents

Included in accounts payable at March 31, 2011 is cash overdrafts payable of \$2.8 million (December 31, 2010 - \$11.1 million).

From time to time throughout the year, we invest excess cash in money market funds or repurchase agreements directly with major commercial banks. We do not physically hold the collateral for repurchase agreements, but the term is less than 10 days. We closely monitor the creditworthiness of the institutions with which we invest our overnight funds and the quality of the collateral underlying those investments. We had \$53.8 million in cash equivalents as of March 31, 2011. There was \$45.5 million in cash equivalents as of December 31, 2010. The weighted average rate of return for our cash equivalents was 0.1% for both March 31, 2011 and December 31, 2010.

13. Financial Instruments

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

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of March 31, 2011 (in thousands):

| | Carrying Value | Fair Value Measure | | |
|---|-------------------|---|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Mutual fund investments of deferred compensation plans held in trust | \$31,897 | \$31,897 | \$- | \$- |
| Long-term debt | 161,054 | 191,280 | - | - |

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

14. Capital Stock Transactions

On February 22, 2011 our Board of Directors authorized \$100 million of capital stock repurchases under the newly established February 2011 repurchase program. For the quarter ended March 31, 2011, we repurchased 341,513 shares at a weighted average price of \$63.79 under the April 2007 and February 2011 plans. For the quarter ended March 31, 2010, we repurchased 31,375 shares at a weighted average cost per share of \$47.17.

15. Guarantor Subsidiaries

Our 1.875% Notes are fully and unconditionally guaranteed on an unsecured, jointly and severally liable basis by certain of our 100% owned subsidiaries. The following unaudited, condensed, consolidating financial data presents the composition of the parent company (Chemed), the guarantor subsidiaries and the non-guarantor subsidiaries as of March 31, 2011 and December 31, 2010 for the balance sheet, the three months ended March 31, 2011 and March 31, 2010 for the income statement and the three months ended March 31, 2011 and March 31, 2010 for the statement of cash flows (dollars in thousands):

| March 31, 2011 | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-----------|---------------------------|-------------------------------|------------------------------|--------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$61,443 | \$(7,872) | \$ 6,174 | \$ - | \$ 59,745 |
| Accounts receivable, less allowances | 731 | 91,619 | 562 | - | 92,912 |
| Intercompany receivables | - | 207,246 | - | (207,246) | - |
| Inventories | - | 7,299 | 668 | - | 7,967 |
| Current deferred income taxes | (695) | 13,881 | 166 | - | 13,352 |
| Prepaid expenses | 551 | 8,872 | 115 | - | 9,538 |
| Total current assets | 62,030 | 321,045 | 7,685 | (207,246) | 183,514 |
| Investments of deferred compensation plans | - | - | 31,897 | - | 31,897 |
| Properties and equipment, at cost, less accumulated depreciation | 12,275 | 64,513 | 2,358 | - | 79,146 |
| Identifiable intangible assets less accumulated amortization | - | 56,061 | - | - | 56,061 |
| Goodwill | - | 453,864 | 4,570 | - | 458,434 |
| Other assets | 8,526 | 2,950 | 2,200 | - | 13,676 |
| Investments in subsidiaries | 733,808 | 19,901 | - | (753,709) | - |
| Total assets | \$816,639 | \$918,334 | \$ 48,710 | \$ (960,955) | \$ 822,728 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Accounts payable | \$418 | \$37,552 | \$ 279 | \$ - | \$ 38,249 |
| Intercompany payables | 202,439 | - | 4,807 | (207,246) | - |
| Income taxes | (6,743) | 13,323 | 1,670 | - | 8,250 |
| Accrued insurance | (72) | 35,583 | - | - | 35,511 |
| Accrued compensation | 1,072 | 37,886 | 511 | - | 39,469 |
| Other current liabilities | 3,192 | 11,110 | 155 | - | 14,457 |
| Total current liabilities | 200,306 | 135,454 | 7,422 | (207,246) | 135,936 |
| Deferred income taxes | (11,618) | 45,321 | (9,539) | - | 24,164 |
| Long-term debt | 161,054 | - | - | - | 161,054 |
| Deferred compensation liabilities | - | - | 31,437 | - | 31,437 |
| Other liabilities | 3,027 | 2,694 | 546 | - | 6,267 |
| Stockholders' equity | 463,870 | 734,865 | 18,844 | (753,709) | 463,870 |
| Total liabilities and stockholders' equity | \$816,639 | \$918,334 | \$ 48,710 | \$ (960,955) | \$ 822,728 |
| December 31, 2010 | | | | | |
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
| ASSETS | | | | | |
| Cash and cash equivalents | \$45,324 | \$(1,571) | \$ 6,164 | \$ - | \$ 49,917 |
| Accounts receivable, less allowances | 802 | 111,716 | 481 | - | 112,999 |

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| | | | | | |
|--|-----------|-----------|-----------|---------------|------------|
| Intercompany receivables | - | 172,426 | - | (172,426) | - |
| Inventories | - | 7,191 | 537 | - | 7,728 |
| Current deferred income taxes | (688) | 15,666 | 120 | - | 15,098 |
| Prepaid income taxes | 2,787 | (1,809) | (208) | - | 770 |
| Prepaid expenses | 782 | 9,244 | 259 | - | 10,285 |
| Total current assets | 49,007 | 312,863 | 7,353 | (172,426) | 196,797 |
| Investments of deferred compensation plans | - | - | 28,304 | - | 28,304 |
| Properties and equipment, at cost, less accumulated depreciation | 12,513 | 64,743 | 2,036 | - | 79,292 |
| Identifiable intangible assets less accumulated amortization | - | 56,410 | - | - | 56,410 |
| Goodwill | - | 453,864 | 4,479 | - | 458,343 |
| Other assets | 6,049 | 2,791 | 2,175 | - | 11,015 |
| Investments in subsidiaries | 716,815 | 18,696 | - | (735,511) | - |
| Total assets | \$784,384 | \$909,367 | \$ 44,347 | \$ (907,937) | \$ 830,161 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Accounts payable | \$4,924 | \$50,457 | \$ 448 | \$ - | \$ 55,829 |
| Intercompany payables | 167,067 | - | 5,359 | (172,426) | - |
| Income taxes | (7,190) | 8,745 | (394) | - | 1,161 |
| Accrued insurance | 906 | 35,586 | - | - | 36,492 |
| Accrued compensation | 4,235 | 35,016 | 468 | - | 39,719 |
| Other current liabilities | 1,549 | 13,447 | 1,145 | - | 16,141 |
| Total current liabilities | 171,491 | 143,251 | 7,026 | (172,426) | 149,342 |
| Deferred income taxes | (11,356) | 45,168 | (8,727) | - | 25,085 |
| Long-term debt | 159,208 | - | - | - | 159,208 |
| Deferred compensation liabilities | - | - | 27,851 | - | 27,851 |
| Other liabilities | 2,992 | 3,123 | 511 | - | 6,626 |
| Stockholders' equity | 462,049 | 717,825 | 17,686 | (735,511) | 462,049 |
| Total liabilities and stockholders' equity | \$784,384 | \$909,367 | \$ 44,347 | \$ (907,937) | \$ 830,161 |

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| For the three months ended March 31, 2011 | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-----------|------------------------|----------------------------|---------------------------|--------------|
| Continuing Operations | | | | | |
| Service revenues and sales | \$- | \$ 324,157 | \$ 6,761 | \$ - | \$ 330,918 |
| Cost of services provided and goods sold | - | 233,876 | 3,582 | - | 237,458 |
| Selling, general and administrative expenses | 6,684 | 45,581 | 3,389 | - | 55,654 |
| Depreciation | 239 | 5,862 | 187 | - | 6,288 |
| Amortization | 355 | 615 | - | - | 970 |
| Total costs and expenses | 7,278 | 285,934 | 7,158 | - | 300,370 |
| Income/ (loss) from operations | (7,278) | 38,223 | (397) | - | 30,548 |
| Interest expense | (3,132) | (112) | - | - | (3,244) |
| Other (expense)/income - net | 3,770 | (3,729) | 2,061 | - | 2,102 |
| Income/ (loss) before income taxes | (6,640) | 34,382 | 1,664 | - | 29,406 |
| Income tax (provision)/ benefit | 2,403 | (13,052) | (656) | - | (11,305) |
| Equity in net income of subsidiaries | 22,338 | 1,033 | - | (23,371) | - |
| Net income | \$ 18,101 | \$ 22,363 | \$ 1,008 | \$ (23,371) | \$ 18,101 |

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

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For the three months ended March 31, 2011

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidated |
|---|------------|---------------------------|-------------------------------|--------------|
| Cash Flow from Operating Activities: | | | | |
| Net cash provided/(used) by operating activities | \$(1,095) | \$48,715 | \$ 921 | \$ 48,541 |
| Cash Flow from Investing Activities: | | | | |
| Capital expenditures | (1) | (5,649) | (523) | (6,173) |
| Proceeds from sale of property and equipment | - | 33 | - | 33 |
| Other sources/(uses) - net | (48) | (108) | 14 | (142) |
| Net cash used by investing activities | (49) | (5,724) | (509) | (6,282) |
| Cash Flow from Financing Activities: | | | | |
| Change in cash overdrafts payable | 668 | (8,978) | - | (8,310) |
| Change in intercompany accounts | 40,963 | (40,314) | (649) | - |
| Dividends paid to shareholders | (2,977) | - | - | (2,977) |
| Purchases of treasury stock | (24,238) | - | (22) | (24,260) |
| Proceeds from exercise of stock options | 3,647 | - | - | 3,647 |
| Realized excess tax benefit on share based compensation | 1,895 | - | - | 1,895 |
| Debt issuance cost | (2,708) | - | - | (2,708) |
| Other sources - net | 13 | - | 269 | 282 |
| Net cash provided/(used) by financing activities | 17,263 | (49,292) | (402) | (32,431) |
| Net increase/(decrease) in cash and cash equivalents | 16,119 | (6,301) | 10 | 9,828 |
| Cash and cash equivalents at beginning of year | 45,324 | (1,571) | 6,164 | 49,917 |
| Cash and cash equivalents at end of period | \$61,443 | \$(7,872) | \$ 6,174 | \$ 59,745 |

For the three months ended March 31, 2010

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

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 months ended March 31, 2011 and 2010 (in thousands except per share amounts):

| | Three months ended | | | |
|-----------------------------------|--------------------|---------|------|---------|
| | March 31, | | | |
| | 2011 | | 2010 | |
| Service revenues and sales | \$ | 330,918 | \$ | 308,813 |
| Net income | \$ | 18,101 | \$ | 19,358 |
| Diluted EPS | \$ | 0.84 | \$ | 0.84 |
| Adjusted EBITDA | \$ | 45,618 | \$ | 43,071 |
| Adjusted EBITDA as a % of revenue | | 13.8 % | | 13.9 % |

EBITDA and Adjusted EBITDA are not measures derived in accordance with GAAP. 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 EBITDA and Adjusted EBITDA is presented on page 23.

For the three months ended March 31, 2011, the increase in consolidated service revenues and sales was driven by a 5.7% increase at VITAS and a 10.9% increase at Roto-Rooter. The increase in service revenues at VITAS was a result of increased average daily census ("ADC") of 4.8%, driven by an increase in admissions of 6.4%, combined with Medicare price increases of approximately 2.1%. Roto-Rooter was driven by an approximate 5.8% increase in job count and a 5.4% price and mix shift increase. Consolidated net income decreased 6.5% mainly as a result of a \$3.0 million payment of long term incentive compensation in the first quarter of 2011. Diluted EPS and Adjusted EBITDA as a percent of revenue were flat when compared with the prior year.

VITAS expects to achieve full-year 2011 revenue growth, prior to Medicare cap, of 7.0% to 9.0%. Admissions are estimated to increase 5.0% to 7.0%. Adjusted EBITDA margin prior to Medicare cap is estimated to be 15.3% to 16.3%. Roto-Rooter expects full-year 2011 revenue growth of 5.0% to 8.0%. The revenue estimate is a result of increased pricing of 3.0%, a favorable mix shift to higher revenue jobs, with job count growth estimated at 0.0% to 3.0%. Adjusted EBITDA margin for 2011 is estimated to be in the range of 16.5% to 17.5%. 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, 2010 to March 31, 2011 include the following:

- A \$20.1 million decrease in accounts receivable primarily at VITAS, related to timing of receipts from Medicare.
 - A \$17.6 million decrease in accounts payable related to timing of payments.
 - A \$7.1 million increase in income taxes payable related to timing of payments.

Net cash provided by operating activities increased \$40.9 million due primarily to the change in accounts receivable. Management continually evaluates cash utilization alternatives, including share repurchase, debt repurchase, acquisitions and increased dividends to determine the most beneficial use of available capital resources.

We have issued \$28.0 million in standby letters of credit as of March 31, 2011, for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of March 31, 2011, we have approximately \$322.0 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the \$150 million expansion feature. Management believes its liquidity and sources of capital are satisfactory for the Company's needs in the foreseeable future.

Commitments and Contingencies

Collectively, the terms of our credit agreements require us to meet various financial covenants, to be tested quarterly. We are in compliance with all financial and other debt covenants as of March 31, 2011 and anticipate remaining in compliance throughout 2011.

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

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

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

In May 2009, VITAS received an administrative subpoena from the U.S. Department of Justice requesting VITAS deliver to the OIG documents, patient records, and policy and procedure manuals for headquarters and its Texas programs concerning hospice services provided for the period January 1, 2003 to the date of the letter. In August 2009, the OIG selected medical records for 59 past and current patients from a Texas program for review. In February 2010, VITAS received a companion civil investigative demand ("CID") from the State of Texas Attorney General's Office, seeking related documents. In September 2010, it received a second CID and a second administrative subpoena seeking related documents. In April, 2011, the U.S. Attorney provided the Company with a copy of a qui tam complaint filed under seal in the U.S. District Court for the Northern District of Texas. The complaint and all filings in the action remain under seal. The U.S. Attorney has not decided whether to intervene in the action. We are conferring with the U.S. Attorney regarding the Company's defenses to the complaint's allegations. We can neither predict the outcome of this investigation nor estimate our potential liability, if any. We believe that we are in compliance with Medicare and Medicaid rules and regulations applicable to hospice providers.

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

The costs to comply with either of these investigations were not material for any period presented. Regardless of outcome, responding to the subpoenas can adversely affect us through defense costs, diversion of our time and related publicity.

Results of Operations

Three months ended March 31, 2011 versus 2010 - Consolidated Results

Our service revenues and sales for the first quarter of 2011 increased 7.2% versus services and sales revenues for the first quarter of 2010. Of this increase, \$12.7 million was attributable to VITAS and \$9.4 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 | \$ 11,426 | 7.3 | % |
| Continuous care | 951 | 2.5 | |
| General inpatient | 1,095 | 4.2 | |
| Medicare cap | (739) | -42.3 | |
| Roto-Rooter | | | |
| Plumbing | 6,126 | 15.7 | |
| Drain cleaning | 2,093 | 6.0 | |
| Other | 1,153 | 9.4 | |
| Total | \$ 22,105 | 7.2 | % |

The increase in VITAS' revenues for the first quarter of 2011 versus the first quarter of 2010 was a result of increased ADC of 4.8% driven by an increase in admissions of 6.4%, combined with Medicare reimbursement rate increases of approximately 2.1%. The ADC increase was driven by a 5.3% increase in routine homecare and an increase of 1.8% in general inpatient offset by a 0.5% decrease 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 quarter of 2011 versus 2010 is attributable to a 9.2% increase in the average price per job and a 6.7% 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 31.0% compared to 2010. On average, the price per job for our excavation jobs is approximately 5 times greater than the price per job of other plumbing jobs. Drain cleaning revenues for the first quarter of 2011 versus 2010 reflect a 5.5% increase in job count and a 0.7% increase in the average price per job. 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 28.2% in the first quarter of 2011 as compared with 29.0% in the first quarter of 2010. On a segment basis, VITAS' gross margin was 21.8% in the first quarter of 2011 and 22.8% in the first quarter of 2010. The decrease in VITAS' gross margin is attributable to a smaller Medicare cap reversal in 2011, 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 44.2% for the first quarter of 2011 as compared with 45.2% for the first quarter of 2010. 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 casualty insurance also contributed to the margin decline.

Selling, general and administrative expenses (“SG&A”) for the first quarter of 2011 and 2010 comprise (in thousands):

| | Three months ended | |
|--|--------------------|-----------|
| | March 31, | |
| | 2011 | 2010 |
| SG&A expenses before long-term incentive compensation and the impact of market gains and losses of deferred compensation plans | \$ 50,578 | \$ 48,350 |
| Long-term incentive compensation | 3,012 | - |
| Impact of market value gains on liabilities held in deferred compensation trusts | 2,064 | 188 |
| Total SG&A expenses | \$ 55,654 | \$ 48,538 |

Normal salary increases and revenue related expense increases between periods accounts for the 4.6% increase in SG&A expenses before long-term incentive compensation and the impact of market gains of deferred compensation plans.

Depreciation expense increased 15% to \$6.3 million in the first quarter of 2011 due mainly to the installation of patient capture software at our VITAS segment in the second quarter of 2010.

Other income for the first quarter of 2011 and 2010 comprise (in thousands):

| | Three months ended | |
|---|--------------------|--------|
| | March 31, | |
| | 2011 | 2010 |
| Market value gains/(losses) on assets held in deferred compensation trust | \$ 2,064 | \$ 188 |
| Loss on disposal of property and equipment | (21) | (94) |
| Interest income | 61 | 75 |
| Other - net | (2) | 17 |
| Total other income/(expense) | \$ 2,102 | \$ 186 |

Our effective income tax rate decreased to 38.4% in the first quarter of 2011 from 38.9% when compared with the first quarter of 2010.

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

| | Three months ended March 31, | |
|---|------------------------------|------------|
| | 2011 | 2010 |
| VITAS | | |
| Costs associated with OIG investigations | \$(317) | \$(99) |
| Acquisition expense | (40) | - |
| Roto-Rooter | | |
| Expenses of class action litigation | (301) | - |
| Acquisition expense | (4) | - |
| Corporate | | |
| Long-term incentive compensation | (1,880) | - |
| Stock option expense | (1,223) | (1,298) |
| Noncash impact of change in accounting for convertible debt | (1,132) | (1,047) |
| Total | \$(4,897) | \$(2,444) |

Three months ended March 31, 2011 versus 2010 - Segment Results

The change in after-tax earnings for the first quarter of 2011 versus the first quarter of 2010 is due to (dollars in thousands):

| | Increase/(Decrease) | | |
|-------------|---------------------|---------|---|
| | Amount | Percent | % |
| VITAS | \$ (313) | -1.7 | % |
| Roto-Rooter | 698 | 8.9 | |
| Corporate | (1,642) | -23.8 | |
| | \$ (1,257) | -6.5 | |

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENT OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2011
(in thousands)(unaudited)

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|-----------|-------------|-----------|------------------------|
| 2011 (a) | | | | |
| Service revenues and sales | \$235,673 | \$95,245 | \$- | \$330,918 |
| Cost of services provided and goods sold | 184,300 | 53,158 | - | 237,458 |
| Selling, general and administrative expenses | 18,711 | 26,740 | 10,203 | 55,654 |
| Depreciation | 4,167 | 1,984 | 137 | 6,288 |
| Amortization | 483 | 132 | 355 | 970 |
| Total costs and expenses | 207,661 | 82,014 | 10,695 | 300,370 |
| Income/(loss) from operations | 28,012 | 13,231 | (10,695) |) 30,548 |
| Interest expense | (48) |) (64) |) (3,132) |) (3,244) |
| Intercompany interest income/(expense) | 1,213 | 639 | (1,852) |) - |
| Other income/(expense)—net | 30 | (9) |) 2,081 | 2,102 |
| Income/(loss) before income taxes | 29,207 | 13,797 | (13,598) |) 29,406 |
| Income taxes | (11,082) |) (5,286) |) 5,063 | (11,305) |
| Net income/(loss) | \$18,125 | \$8,511 | \$(8,535) |) \$18,101 |

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

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|---------|-------------|-------------|------------------------|
| Pretax benefit/(cost): | | | | |
| Long-term incentive compensation | \$- | \$- | \$(3,012) |) \$(3,012) |
| Stock option expense | - | - | (1,933) |) (1,933) |
| Noncash impact of accounting for convertible debt | - | - | (1,790) |) (1,790) |
| Expenses of class action litigation | - | (495) |) | (495) |
| Acquisition expenses | (64) |) (6) |) | (70) |
| Expenses incurred in connection with the OIG investigation | (511) |) | - | (511) |
| Total | \$(575) |) \$(501) |) \$(6,735) |) \$(7,811) |

| | VITAS | Roto-Rooter | Corporate | Consolidated |
|--|---------|-------------|-------------|--------------|
| After-tax benefit/(cost): | | | | |
| Long-term incentive compensation | \$- | \$- | \$(1,880) |) \$(1,880) |
| Stock option expense | - | - | (1,223) |) (1,223) |
| Noncash impact of accounting for convertible debt | - | - | (1,132) |) (1,132) |
| Expenses of class action litigation | - | (301) |) | (301) |
| Acquisition expenses | (40) |) (4) |) | (44) |
| Expenses incurred in connection with the OIG investigation | (317) |) | - | (317) |
| Total | \$(357) |) \$(305) |) \$(4,235) |) \$(4,897) |

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

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

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

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

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

Consolidating Summary and Reconciliation of Adjusted EBITDA

Chemed Corporation and Subsidiary Companies

(in thousands)

| For the three months ended March 31, 2011 | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|---|----------|-------------|-----------|---------------------|
| Net income/(loss) | \$18,125 | \$8,511 | \$(8,535) |) \$18,101 |
| Add/(deduct): | | | | |
| Interest expense | 48 | 64 | 3,132 | 3,244 |
| Income taxes | 11,082 | 5,286 | (5,063) |) 11,305 |
| Depreciation | 4,167 | 1,984 | 137 | 6,288 |
| Amortization | 483 | 132 | 355 | 970 |
| EBITDA | 33,905 | 15,977 | (9,974) |) 39,908 |
| Add/(deduct): | | | | |
| Legal expenses of OIG investigation | 511 | - | - | 511 |
| Acquisition expenses | 64 | 6 | - | 70 |
| Expenses of class action litigation | - | 495 | - | 495 |
| Long-term incentive compensation | - | - | 3,012 | 3,012 |
| Stock option expense | - | - | 1,933 | 1,933 |
| Advertising cost adjustment | - | (250) | - | (250) |
| Interest income | (37) |) (7) |) (17) |) (61) |
| Intercompany interest income/(expense) | (1,213) |) (639) |) 1,852 | - |
| Adjusted EBITDA | \$33,230 | \$15,582 | \$(3,194) |) \$45,618 |

| For the three months ended March 31, 2010 | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|---|----------|-------------|-----------|---------------------|
| Net income/(loss) | \$18,438 | \$7,813 | \$(6,893) |) \$19,358 |
| Add/(deduct): | | | | |
| Interest expense | 32 | 68 | 2,852 | 2,952 |
| Income taxes | 11,226 | 4,828 | (3,733) |) 12,321 |
| Depreciation | 3,485 | 1,951 | 33 | 5,469 |
| Amortization | 771 | 123 | 330 | 1,224 |
| EBITDA | 33,952 | 14,783 | (7,411) |) 41,324 |
| Add/(deduct): | | | | |
| Legal expenses of OIG investigation | 160 | - | - | 160 |
| Stock option expense | - | - | 2,051 | 2,051 |
| Advertising cost adjustment | - | (389) | - | (389) |
| Interest income | (45) |) (2) |) (28) |) (75) |
| Intercompany interest income/(expense) | (1,289) |) (702) |) 1,991 | - |
| Adjusted EBITDA | \$32,778 | \$13,690 | \$(3,397) |) \$43,071 |

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
 OPERATING STATISTICS FOR VITAS SEGMENT
 FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010
 (unaudited)

| | 2011 | | 2010 | |
|--|------------|---|------------|---|
| Net revenue (\$000) | | | | |
| Homecare | \$ 168,652 | | \$ 157,226 | |
| Inpatient | 27,386 | | 26,291 | |
| Continuous care | 38,625 | | 37,674 | |
| Total before Medicare cap allowance | \$234,663 | | \$221,191 | |
| Medicare cap allowance | 1,010 | | 1,749 | |
| Total | \$235,673 | | \$222,940 | |
| Net revenue as a percent of total before Medicare cap allowance | | | | |
| Homecare | 71.8 | % | 71.1 | % |
| Inpatient | 11.7 | | 11.9 | |
| Continuous care | 16.5 | | 17.0 | |
| Total before Medicare cap allowance | 100.0 | | 100.0 | |
| Medicare cap allowance | 0.4 | | 0.8 | |
| Total | 100.4 | % | 100.8 | % |
| Average daily census (days) | | | | |
| Homecare | 8,833 | | 8,112 | |
| Nursing home | 3,033 | | 3,162 | |
| Routine homecare | 11,866 | | 11,274 | |
| Inpatient | 450 | | 442 | |
| Continuous care | 603 | | 606 | |
| Total | 12,919 | | 12,322 | |
| Total Admissions | 15,798 | | 14,844 | |
| Total Discharges | 15,552 | | 14,461 | |
| Average length of stay (days) | 78.9 | | 75.8 | |
| Median length of stay (days) | 13.0 | | 13.0 | |
| ADC by major diagnosis | | | | |
| Neurological | 34.0 | % | 32.6 | % |
| Cancer | 17.9 | | 18.8 | |
| Cardio | 11.8 | | 11.9 | |
| Respiratory | 6.7 | | 6.6 | |
| Other | 29.6 | | 30.1 | |
| Total | 100.0 | % | 100.0 | % |
| Admissions by major diagnosis | | | | |
| Neurological | 19.5 | % | 18.6 | % |
| Cancer | 31.7 | | 33.5 | |
| Cardio | 11.1 | | 11.6 | |
| Respiratory | 9.1 | | 8.4 | |
| Other | 28.6 | | 27.9 | |
| Total | 100.0 | % | 100.0 | % |
| Direct patient care margins | | | | |
| Routine homecare | 51.5 | % | 51.3 | % |

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| | | | | |
|--|----------|---|----------|---|
| Inpatient | 13.0 | | 15.2 | |
| Continuous care | 20.5 | | 20.7 | |
| Homecare margin drivers (dollars per patient day) | | | | |
| Labor costs | \$55.38 | | \$53.93 | |
| Drug costs | 7.97 | | 7.77 | |
| Home medical equipment | 5.94 | | 6.94 | |
| Medical supplies | 2.76 | | 2.44 | |
| Inpatient margin drivers (dollars per patient day) | | | | |
| Labor costs | \$306.66 | | \$286.81 | |
| Continuous care margin drivers (dollars per patient day) | | | | |
| Labor costs | \$544.16 | | \$526.47 | |
| Bad debt expense as a percent of revenues | 0.6 | % | 1.0 | % |
| Accounts receivable -- | | | | |
| Days of revenue outstanding- excluding unapplied Medicare payments | 55.3 | | 43.4 | |
| Days of revenue outstanding- including unapplied Medicare payments | 29.1 | | 29.2 | |

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our primary market risk exposure relates to interest rate risk exposure through variable interest rate borrowings. At March 31, 2011, we had no variable rate debt outstanding. At March 31, 2011, the fair value of the Notes approximates \$191.3 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 three months of 2011:

| | 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, 2011 | 300,513 | \$ 63.62 | 3,654,157 | \$ 24,543 |
| February 1 through February 28, 2011 | 377 | 65.03 | 3,654,534 | - |
| March 1 through March 31, 2011 | - | - | 3,654,534 | \$ - |
| First Quarter Total - April 2007 Program | 300,890 | \$ 63.62 | | |
| February 2011 Program | | | | |
| January 1 through January 31, 2011 | - | \$ - | - | \$ - |
| February 22, 2011 Authorization February 1 through February 28, 2011 | - | - | - | 100,000,000 |
| March 1 through March 31, 2011 | 40,623 | 65.03 | 40,623 | 97,358,313 |
| First Quarter Total - February 2011 Program | 40,623 | \$ 65.03 | 40,623 | \$ 97,358,313 |

On February 22, 2011 our Board of Directors authorized \$100 million under the newly established February 2011 Repurchase Program.

Item 3. Defaults Upon Senior Securities

None

Item 4. Removed and reserved

Item 5. Other Information

None

Item 6. Exhibits

| Exhibit No. | Description |
|-------------|--|
| 10.1 | Amended and Restated Credit Agreement - \$350,000,000 Revolving Credit Facility, originally dated May 2, 2007, by and among JP Morgan Chase Bank, N.A. and Chemed Corporation as of March 1, 2011, exhibits and schedules thereto. |
| 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: April 29, 2011 By: Kevin J. McNamara
Kevin J. McNamara
(President and Chief Executive Officer)

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Dated: April 29, 2011 By: David P. Williams
David P. Williams
(Executive Vice President and Chief Financial Officer)

Dated: April 29, 2011 By: Arthur V. Tucker, Jr.
Arthur V. Tucker, Jr.
(Vice President and Controller)