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).

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

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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

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 30,		Nine Months Ended September 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

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% Convertible Notes	Warrant Shares	Total Treasury Method Incremental Shares (a)	Shares Due to the Company under Notes Hedges	Incremental Shares Issued/(Received) by the Company 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)

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

5. Long-Term Debt

We are in compliance with all debt covenants as of 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):

		Fair Value Measure		
	Carrying Value	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	$ 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

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

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
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

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 Plantiffs’ 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	Nine Months Ended September 30, 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	Nine Months Ended September 30, 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	%

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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)

	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				

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

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):				

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):				

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

For the nine months ended September 30, 2009	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
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

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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
OPERATING STATISTICS	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 %

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	0.9 %	1.1 %	0.9 %	1.1 %
Accounts receivable --				
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 ident 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

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

(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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