

CHEMED CORPORATION AND
SUBSIDIARY COMPANIES

Index

PART I. FINANCIAL INFORMATION:

Item 1. Financial Statements

Unaudited Consolidated Balance Sheet -
June 30, 2007 and December 31, 2006

Unaudited Consolidated Statement of Income -
Three and six months ended June 30, 2007 and 2006

Unaudited Consolidated Statement of Cash Flows -
Six months ended June 30, 2007 and 2006

Notes to Unaudited Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures

PART II. OTHER INFORMATION

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

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

Item 6. Exhibits

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)

ASSETS

Current assets

Cash and cash equivalents

Accounts receivable less allowances of \$ 10,186 (2006 - \$ 10,180)

June 30,
2007

\$ 7,499,800

Edgar Filing: CHEMED CORP - Form 10-Q

| | |
|---|----------|
| Inventories | 6,7 |
| Current deferred income taxes | 19,8 |
| Prepaid income taxes | 2,6 |
| Current assets of discontinued operations | |
| Prepaid expenses and other current assets | 8,5 |
| | ----- |
| Total current assets | 145,0 |
| Investments of deferred compensation plans held in trust | 29,3 |
| Note receivable | 14,7 |
| Properties and equipment, at cost, less accumulated depreciation of \$ 83,315 (2006 - \$ 77,107) | 72,4 |
| Identifiable intangible assets less accumulated amortization of \$ 15,224 (2006 - \$ 13,201) | 67,1 |
| Goodwill | 435,2 |
| Noncurrent assets of discontinued operations | |
| Other assets | 15,5 |
| | ----- |
| Total Assets | \$ 779,5 |
| | ===== |
| LIABILITIES | |
| Current liabilities | |
| Accounts payable | \$ 46,3 |
| Current portion of long-term debt | 10,1 |
| Income taxes | 8 |
| Accrued insurance | 37,0 |
| Accrued compensation | 33,0 |
| Current liabilities of discontinued operations | |
| Other current liabilities | 20,6 |
| | ----- |
| Total current liabilities | 148,1 |
| Deferred income taxes | 3,8 |
| Long-term debt | 268,0 |
| Deferred compensation liabilities | 28,9 |
| Other liabilities | 5,9 |
| | ----- |
| Total Liabilities | 454,8 |
| | ----- |
| STOCKHOLDERS' EQUITY | |
| Capital stock - authorized 80,000,000 shares \$1 par; issued 29,193,268 shares (2006 - 28,849,918 shares) | 29,1 |
| Paid-in capital | 261,9 |
| Retained earnings | 242,9 |
| Treasury stock - 5,277,400 shares (2006 - 3,023,635 shares), at cost | (211,8) |
| Deferred compensation payable in Company stock | 2,4 |
| | ----- |
| Total Stockholders' Equity | 324,6 |
| | ----- |
| Total Liabilities and Stockholders' Equity | \$ 779,5 |
| | ===== |

See accompanying notes to unaudited consolidated financial statements.

Edgar Filing: CHEMED CORP - Form 10-Q

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

| | Three Months Ended June 30, | | Six |
|--|-----------------------------|------------|-----|
| | 2007 | 2006 | 2 |
| Continuing operations | | | |
| Service revenues and sales | \$ 271,387 | \$ 249,068 | \$ |
| Cost of services provided and goods sold (excluding depreciation) | 188,716 | 179,103 | |
| Selling, general and administrative expenses | 46,090 | 38,621 | |
| Depreciation | 4,962 | 4,082 | |
| Amortization | 1,294 | 1,317 | |
| Other operating income | - | - | |
| Total costs and expenses | 241,062 | 223,123 | |
| Income from operations | 30,325 | 25,945 | |
| Interest expense | (3,400) | (4,300) | |
| Loss on extinguishment of debt | (13,715) | - | |
| Other income--net | 2,188 | 524 | |
| Income before income taxes | 15,398 | 22,169 | |
| Income taxes | (5,965) | (8,619) | |
| Income from continuing operations | 9,433 | 13,550 | |
| Discontinued operations, net of income taxes | - | (708) | |
| Net income | \$ 9,433 | \$ 12,842 | \$ |
| Earnings Per Share | | | |
| Income from continuing operations | \$ 0.38 | \$ 0.52 | \$ |
| Net income | \$ 0.38 | \$ 0.49 | \$ |
| Average number of shares outstanding | 24,506 | 26,201 | |
| Diluted Earnings Per Share | | | |
| Income from continuing operations | \$ 0.38 | \$ 0.50 | \$ |
| Net income | \$ 0.38 | \$ 0.48 | \$ |
| Average number of shares outstanding | 25,080 | 26,846 | |
| Cash Dividends Per Share | \$ 0.06 | \$ 0.06 | \$ |

See accompanying notes to unaudited consolidated financial statements.

Edgar Filing: CHEMED CORP - Form 10-Q

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

Cash Flows from Operating Activities

Net income
Adjustments to reconcile net income to net cash provided
by operating activities:
 Depreciation and amortization
 Write off of unamortized debt issuance costs
 Noncash long-term incentive compensation
 Provision for uncollectible accounts receivable
 Amortization of debt issuance costs
 Provision for deferred income taxes
 Discontinued operations
 Changes in operating assets and liabilities, excluding
 amounts acquired in business combinations
 Increase in accounts receivable
 Decrease/(increase) in inventories
 Decrease in prepaid expenses and
 other current assets
 Decrease in accounts payable and other current liabilities
 Increase in income taxes
 Increase in other assets
 Increase in other liabilities
 Excess tax benefit on share-based compensation
 Other sources

Net cash provided by continuing operations
Net cash provided by discontinued operations

Net cash provided by operating activities

Cash Flows from Investing Activities

Capital expenditures
Net uses from the disposals of discontinued operations
Proceeds from sales of property and equipment
Business combinations, net of cash acquired
Other uses

Net cash used by investing activities

Cash Flows from Financing Activities

Proceeds from issuance of long-term debt
Repayment of long-term debt
Purchases of treasury stock
Purchase of note hedges
Proceeds from issuance of warrants
Net increase in revolving line of credit
Debt issuance costs
Dividends paid
Excess tax benefit on share-based compensation
Issuance of capital stock
Increase in cash overdrafts payable
Other sources

Edgar Filing: CHEMED CORP - Form 10-Q

Net cash used by financing activities

Decrease in Cash and Cash Equivalents
Cash and cash equivalents at beginning of year

Cash and cash equivalents at end of period

See accompanying notes to unaudited consolidated financial statements.

5

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 for complete financial statements. 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, 2006. Certain 2006 amounts have been reclassified to conform with current period presentation in the balance sheet and statement of income primarily related to the presentation of the discontinued operations of our Phoenix hospice program.

2. Refinancing Transactions

On May 2, 2007, we entered into a new senior secured credit facility with JPMorgan Chase Bank (the "2007 Facility") to replace our existing credit facility. The 2007 Facility includes a \$100 million term loan, a \$175 million revolving credit facility and a \$100 million expansion feature. The facility has a 5-year maturity with principal payments on the term loan due quarterly and on the revolving credit facility due at maturity. Interest is payable quarterly at a floating rate equal to our choice of various indices plus a specified margin based on our leverage ratio. The interest rate at the inception of the agreement is LIBOR plus 0.875%. In connection with replacing our existing credit facility, we wrote-off approximately \$2.3 million in deferred debt costs. The write-off of deferred debt costs has been recorded as loss on extinguishment of debt in the accompanying statement of income.

On May 4, 2007, we used the proceeds from the 2007 Facility to fund the redemption of our \$150 million, 8.75% Senior Notes due 2011. The redemption was made pursuant to the terms of the indenture at a price of 104.375% plus accrued but unpaid interest. In connection with the redemption, we wrote-off approximately \$4.8 million in deferred debt costs. The premium payment of \$6.6 million and the write-off of deferred debt costs have been recorded as loss on extinguishment of debt in the accompanying statement of income.

Edgar Filing: CHEMED CORP - Form 10-Q

On May 8, 2007, we entered into a Purchase Agreement with J.P. Morgan Securities Inc. and Citigroup Global Markets Inc. (the "Initial Purchasers") for issuance and sale of \$180 million in aggregate principal amount of our 1.875% Senior Convertible Notes due 2014 (the "Notes"). On May 9, 2007, the Initial Purchasers exercised an over-allotment option to purchase an additional \$20 million in aggregate principal amount of Notes. On May 14, 2007 a total of \$200 million in aggregate principal amount of the Notes were sold to the Initial Purchasers at a price of \$1,000 per Note, less an underwriting fee of \$27.50 per Note. The Notes are to be resold by the Initial Purchasers pursuant to Rule 144A of the Securities Act of 1933, as amended (the "Securities Act").

We received approximately \$194 million in net proceeds from the sale of the Notes after paying underwriting fees, legal and other expenses. Proceeds from the offering were used to purchase treasury shares of our stock, as discussed further in Note 3 and to pay down a portion of the 2007 Facility. We will pay interest on the Notes on May 15 and November 15 of each year, beginning on November 15, 2007. The Notes will mature on May 15, 2014. The Notes are guaranteed on an unsecured senior basis by each of our subsidiaries that is a borrower or a guarantor under any senior credit facility, as defined in the Indenture. The Notes are convertible, under certain circumstances, into our Capital Stock at a conversion rate of 12.3874 shares per \$1,000 principal amount of Notes. This conversion rate is equivalent to an initial conversion price of approximately \$80.73 per share. Prior to March 1, 2014, holders may convert their Notes under certain circumstances. On and after March 1, 2014, the Notes will be convertible at any time prior to the close of business three days prior to the stated maturity date of the Notes. Upon conversion of a Note, if the conversion value is \$1,000 or less, holders will receive cash equal to the lesser of \$1,000 or the conversion value of the number of shares of our Capital Stock. If the conversion value exceeds \$1,000, in addition to this, holders will receive shares of our Capital Stock for the excess amount. The Indenture contains customary terms and covenants that upon certain events of default, including without limitation, failure to pay when due any principal amount, a fundamental change or certain cross defaults in other agreements or instruments, occurring and continuing, either the trustee or the holders of 25% in aggregate principal amount of the Notes may declare the principal of the Notes and any accrued and unpaid interest through the date of such declaration immediately due and payable. In the case of certain events of bankruptcy or insolvency relating to any significant subsidiary or to us, the principal amount of the Notes and accrued interest automatically becomes due and payable.

6

Pursuant to the guidance in Emerging Issues Task Force ("EITF") 90-19, "Convertible Bonds with Issuer Option to Settle for Cash Upon Conversion", EITF 00-19 "Accounting for Derivative Instruments Indexed to, and Potentially Settled in a Company's Own Stock" and EITF 01-6 "The Meaning of Indexed to a Company's Own Stock", the Notes are accounted for as convertible debt in the accompanying consolidated balance sheet and the embedded options within the Notes have not been accounted for as separate derivatives.

We, our subsidiary guarantors and the Initial Purchasers also entered into a Registration Rights Agreement (the "RRA") dated May 14, 2007. Pursuant to the RRA, we agreed to, no later than the 120th day after May 14, 2007, file a shelf registration statement covering resale of the Notes and the Capital Stock issuable upon conversion pursuant to Rule 415 under the Securities Act. We will also cause the shelf registration statement to be declared effective under the Securities Act no later than the 180th day

Edgar Filing: CHEMED CORP - Form 10-Q

after May 14, 2007. If the shelf registration is not filed or effective by the appropriate dates, additional interest may accrue on the Notes.

On May 8, 2007 we entered into a purchased call transaction and a warrant transaction (written call) with JPMorgan Chase, National Association and Citibank, N.A. (the "Counterparties"). The purchased call options cover approximately 2,477,000 shares of our Capital Stock, which under most circumstances represents the maximum number of shares of Capital Stock that underlie the Notes. Concurrently with entering into the purchased call options, we entered into warrant transactions with each of the Counterparties. Pursuant to the warrant transactions, we sold to the Counterparties warrants to purchase in the aggregate approximately 2,477,000 shares of Capital Stock. In most cases, the sold warrants may not be exercised prior to the maturity of the Notes.

The purchased call options and sold warrants are separate contracts with the Counterparties, are not part of the terms of the Notes and do not affect the rights of holders under the Notes. A holder of the Notes will not have any rights with respect to the purchased call options or the sold warrants. The purchased call options are expected to reduce the potential dilution upon conversion of the Notes if the market value per share of the Capital Stock at the time of exercise is greater than approximately \$80.73, which corresponds to the initial conversion price of the Notes. The sold warrants have an exercise price of \$105.44 and are expected to result in some dilution should the price of our Capital Stock exceed this exercise price. See Note 7 for further detail with respect to the potential impact of these transactions on our Earnings Per Share.

Our net cost for these transactions was approximately \$27.3 million. Pursuant to EITF 00-19 and EITF 01-6, the purchased call option and the sold warrants are accounted for as equity transactions. Therefore, our net cost was recorded as a decrease in shareholders' equity in the accompanying consolidated balance sheet.

On June 29, 2007, we paid approximately \$35.5 million of the \$100 million term note under the 2007 Facility using a combination of cash on hand and a draw from the revolving credit facility. Of the amount paid in June 2007, \$33.0 million represents a prepayment. The following is a schedule by year of required long-term debt repayments as of June 30, 2007 (in thousands):

| | | |
|-----------------------|----|----------|
| June 2008 | \$ | 10,162 |
| June 2009 | | 10,059 |
| June 2010 | | 10,059 |
| June 2011 | | 10,059 |
| June 2012 | | 37,858 |
| Thereafter | | 200,000 |
| | | |
| Total debt | | 278,197 |
| Less: Current portion | | (10,162) |
| | | |
| Total long-term debt | \$ | 268,035 |
| | | |

We are in compliance with all debt covenants as of June 30, 2007. We have issued \$34.3 million in standby letters of credit as of June 30, 2007 mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of June 30, 2007, the Company has approximately \$127.4 million of unused lines of credit available and eligible to be drawn down under its revolving credit facility, excluding the expansion feature.

Edgar Filing: CHEMED CORP - Form 10-Q

3. Capital Stock Transactions

On April 26, 2007, our Board of Directors authorized a \$150 million stock repurchase program. Our \$50 million stock repurchase program, authorized in July 2006, had approximately \$13.6 million remaining as of March 31, 2007. For the three and six months June 30, 2007 we repurchased 1.5 million and 2.1 million shares, respectively at a weighted average cost of \$65.26 per share and \$59.82 per share, respectively. There were no shares repurchased during the three or six months ended June 30, 2006.

4. Revenue Recognition

Both the VITAS segment and 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 caps, as described below.

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. As of the date of this filing for the 2007 measurement period, no programs have a required Medicare billing reduction. Our current estimates for the projected full year 2007 measurement period anticipate no programs with a Medicare cap billing limitation. Therefore, no revenue reduction for Medicare cap has been recorded for the three or six-month period ended June 30, 2007.

5. Segments

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

| | Three months ended June 30, | | Six months ended June 30, | |
|-----------------------------------|--------------------------------|-----------|------------------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| Service Revenues and Sales | | | | |
| VITAS | \$185,701 | \$171,527 | \$369,750 | \$337,584 |
| Roto-Rooter | 85,686 | 77,541 | 172,076 | 155,405 |
| Total | \$271,387 | \$249,068 | \$541,826 | \$492,989 |
| Aftertax Earnings | | | | |
| VITAS | \$ 14,154 | \$ 12,107 | \$ 29,141 | \$22,787 |
| Roto-Rooter | 10,695 | 7,003 | 20,181 | 14,204 |

Edgar Filing: CHEMED CORP - Form 10-Q

| | | | | |
|-------------------------|----------|-----------|-----------|----------|
| Total | 24,849 | 19,110 | 49,322 | 36,991 |
| Corporate | (15,416) | (5,560) | (23,668) | (11,403) |
| Discontinued operations | - | (708) | - | (531) |
| Net income | \$ 9,433 | \$ 12,842 | \$ 25,654 | \$25,057 |

6. Patient Care Notes Receivable

We have notes receivable of \$14.7 million from Patient Care, Inc. related to our sale of this subsidiary in 2002. In February 2007, the parties amended the terms of the promissory notes receivable. The amended notes are due October 2009. The interest on the notes receivable is the higher of Patient Care's current floating rate plus 2% or 11.5% per year. Interest payments are due quarterly. As of June 30, 2007, Patient Care is current on all interest payments related to these notes.

8

7. 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 2007 and 2006 are computed as follows (in thousands, except per share data):

| For the Three Months Ended June 30, | Income from Continuing Operations | | | Net Income | |
|--|-----------------------------------|--------|--------------------------|------------|--------|
| | Income | Shares | Earnings per Share | Income | Shares |
| 2007 | | | | | |
| Earnings | \$ 9,433 | 24,506 | \$ 0.38 | \$ 9,433 | 24,506 |
| Dilutive stock options | - | 481 | | - | 481 |
| Nonvested stock awards | - | 93 | | - | 93 |
| Diluted earnings | \$ 9,433 | 25,080 | \$ 0.38 | \$ 9,433 | 25,080 |
| 2006 | | | | | |
| Earnings | \$ 13,550 | 26,201 | \$ 0.52 | \$ 12,842 | 26,201 |
| Dilutive stock options | - | 558 | | - | 558 |
| Nonvested stock awards | - | 87 | | - | 87 |
| Diluted earnings | \$ 13,550 | 26,846 | \$ 0.50 | \$ 12,842 | 26,846 |

| For the Six Months Ended June 30, | Income from Continuing Operations | | | Net Income | |
|--------------------------------------|-----------------------------------|--------|--------------------------|------------|--------|
| | Income | Shares | Earnings per Share | Income | Shares |
| 2007 | | | | | |
| Earnings | \$ 25,654 | 25,108 | \$ 1.02 | \$ 25,654 | 25,108 |

Edgar Filing: CHEMED CORP - Form 10-Q

| | | | | |
|------------------------|-----------|--------|---------|------------------|
| Dilutive stock options | - | 459 | - | 459 |
| Nonvested stock awards | - | 117 | - | 117 |
| Diluted earnings | \$ 25,654 | 25,684 | \$ 1.00 | \$ 25,654 25,684 |
| 2006 | | | | |
| Earnings | \$ 25,588 | 26,123 | \$ 0.98 | \$ 25,057 26,123 |
| Dilutive stock options | - | 604 | - | 604 |
| Nonvested stock awards | - | 88 | - | 88 |
| Diluted earnings | \$ 25,588 | 26,815 | \$ 0.95 | \$ 25,057 26,815 |

Diluted earnings per share may be impacted in future periods as the result of the issuance of our \$200 million Notes and related purchased call options and sold warrants, as described in Note 2 above. Under EITF 04-8 "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share" and EITF 90-19, 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 conversion price of \$80.73. At such a time in the future, we would include the number of shares in our diluted earnings per share that would be 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. In addition, 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.

9

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 |
|-------------|--|----------------|--|--|
| \$ 80.73 | - | - | - | - |
| \$ 90.73 | 273,061 | - | 273,061 | (273,061) |
| \$ 100.73 | 491,905 | - | 491,905 | (491,905) |
| \$ 110.73 | 671,222 | 118,359 | 789,581 | (671,222) |
| \$ 120.73 | 820,833 | 313,764 | 1,134,597 | (820,833) |
| \$ 130.73 | 947,556 | 479,274 | 1,426,830 | (947,556) |

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

Edgar Filing: CHEMED CORP - Form 10-Q

(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.

8. Other Operating Income

During the first quarter of 2007, we completed the sale of Roto-Rooter's call center building in Florida. The proceeds from the sale were approximately \$3.0 million, which resulted in a pretax gain of \$1.1 million. The gain was recorded in other income from operations in the accompanying consolidated statement of income.

9. Other Income -- Net

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

| | Three Months Ended June 30, | | Six Months Ended June 30, |
|---|--------------------------------|--------|------------------------------------|
| | 2007 | 2006 | |
| Interest income | \$ 944 | \$ 578 | \$1,522 |
| (Loss)/gain on trading investments of employee benefit trusts | 1,237 | (8) | 1,229 |
| Other - net | 7 | (46) | (39) |
| Total other income | \$ 2,188 | \$ 524 | \$3,412 |

10. Other Current Liabilities

Other current liabilities as of June 30, 2007 and December 31, 2006 consist of the following (in thousands):

| | 2007 | 2006 |
|---------------------------------|-----------|-----------|
| Accrued legal settlements | \$ 513 | \$ 1,889 |
| Accrued divestiture expenses | 845 | 2,612 |
| Accrued Medicare Cap estimate | 9,503 | 3,373 |
| Other | 9,777 | 14,810 |
| Total other current liabilities | \$ 20,638 | \$ 22,684 |

Accrued Medicare cap as of June 30, 2007 includes \$6.6 million related to our Phoenix program that we sold in November 2006. This amount was recorded in current liabilities from discontinued operations as of December 31, 2006.

11. 2002 Executive Long-Term Incentive Plan

In February 2007, we met the cumulative earnings target specified in the LTIP and on March 9, 2007 the Compensation/Incentive Committee of the Board

Edgar Filing: CHEMED CORP - Form 10-Q

of Directors approved a stock grant of 100,000 shares and the related allocation to participants. The pre-tax cost of the stock grant was \$5.4 million and is included in selling, general and administrative expenses in the accompanying consolidated statement of income.

In May 2007, the Compensation/Incentive Committee of the Board of Directors approved a pool of shares to be awarded based on new earnings before interest, depreciation and amortization (EBITDA) targets. The participants of the LTIP may be awarded 80,000 shares of our capital stock if we attain adjusted EBITDA of either \$465 million for the three year period beginning January 1, 2007 or \$604 million for the four year period beginning January 1, 2007.

In June 2007, we met the \$62.00 per share stock price hurdle specified in the 2002 Long-Term Incentive Plan (LTIP) and on June 27, 2007 the Compensation/Incentive Committee of the Board of Directors approved a stock grant of 22,200 shares and the related allocation to participants. The pre-tax cost of the stock grant was \$1.6 million and is included in selling, general and administrative expenses in the accompanying statement of income.

12. Loans Receivable from Independent Contractors

The Roto-Rooter segment sublicenses with approximately sixty-one independent contractors to operate certain plumbing repair and drain cleaning businesses in lesser-populated areas of the United States and Canada. As of June 30, 2007, we had notes receivable from our independent contractors totaling \$1.7 million (December 31, 2006-\$1.9 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 5% to 8% per annum and the remaining terms of the loans range from two months to 5 years at June 30, 2007. During the three and six months ended June 30, 2007, we recorded revenues of \$5.4 million and \$10.8 million respectively (2006-\$4.6 million and \$9.5 million, respectively) and pretax profits of \$2.3 million and \$4.7 million, respectively (2006-\$1.7 million and \$3.8 million, respectively) from our independent contractors.

We have adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 46R "Consolidation of Variable Interest Entities--an interpretation of Accounting Research Bulletin No. 51 (revised)" ("FIN 46R") relative to our contractual relationships with the independent contractors. FIN 46R requires the primary beneficiary of a Variable Interest Entity ("VIE") to consolidate the accounts of the VIE. We have evaluated our relationships with our independent contractors based upon guidance provided in FIN 46R and have concluded that some of the contractors who have loans payable to us may be VIE's. We believe consolidation, if required, of the accounts of any VIE's for which we might be the primary beneficiary would not materially impact our financial position, results of operations or cash flows.

13. 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 \$7.7 million for the three and six months ended June 30, 2007, respectively. Expenses for the Company's pension and profit-sharing plans, excess benefit plans and other similar plans were \$2.4 million and \$4.8 million for the three and six months ended June 30, 2006, respectively.

14. Litigation

Like other large California employers, our VITAS subsidiary faces allegations of purported class-wide wage and hour violations. It was party

Edgar Filing: CHEMED CORP - Form 10-Q

to a class action lawsuit filed in the Superior Court of California, Los Angeles County, in April of 2004 by Ann Marie Costa, Ana Jimenez, Mariea Ruteaya and Gracetta Wilson ("Costa"). This case alleged failure to pay overtime wages for hours worked "off the clock" on administrative tasks, including voicemail retrieval, time entry, travel to and from work, and pager response. This case also alleged VITAS failed to provide meal and break periods to a purported class of California nurses, home health aides and licensed clinical social workers. The case also sought payment of penalties, interest, and Plaintiffs' attorney fees. VITAS contested these allegations. During 2006, we reached a tentative settlement and on June 26, 2006, the court granted final approval of the settlement (\$19.9 million).

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 ("Santos"). This case, filed by the Costa case Plaintiffs' counsel, makes similar allegations of 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 likewise seeks payment of penalties, interest and Plaintiffs' attorney fees. VITAS contests these allegations. The lawsuit is in its early stage and we are unable to estimate our potential liability, if any, with respect to these allegations.

11

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.

15. OIG Investigation

On April 7, 2005, we announced 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. We have incurred pretax expense related to complying with OIG requests and defending the litigation of \$74,000 and \$140,000 for the three and six months ended June 30, 2007, respectively (2006 - \$342,000 and \$474,000, respectively). A qui tam complaint filed in U.S. District Court for the Southern District of Florida was dismissed by the Court with prejudice in July 2007.

The government may continue to investigate the complaint's allegations. We are unable to predict the outcome of this matter 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 and defending the litigation can adversely affect us through defense costs, diversion of our time and related publicity.

16. Related Party Agreement

In October 2004, VITAS entered into a pharmacy services agreement ("Agreement") with Omnicare, Inc. ("OCR") whereby OCR will provide specified pharmacy services for VITAS and its hospice patients in geographical areas served by both VITAS and OCR. The Agreement has an initial term of three years that renews automatically for one-year terms.

Edgar Filing: CHEMED CORP - Form 10-Q

Either party may cancel the Agreement at the end of any term by giving written notice at least 90 days prior to the end of said term. In June 2004, VITAS entered into a pharmacy services agreement with excelleRx. The agreement has a one-year term and automatically renews unless either party provides a 90-day written termination notice. Subsequent to June 2004, OCR acquired excelleRx. Under both agreements, VITAS made purchases of \$8.3 million and \$16.6 million for the three and six months ended June 30, 2007, respectively (2006 - \$7.3 million and \$14.3 million, respectively) and has accounts payable of \$3.4 million at June 30, 2007.

Mr. E. L. Hutton is non-executive Chairman of the Board and a director of the Company and OCR. Mr. Joel F. Gemunder, President and Chief Executive Officer of OCR, Mr. Charles H. Erhart, Jr. and Ms. Sandra Laney are directors of both OCR and the Company. Mr. Kevin J. McNamara, President, Chief Executive Officer and a director of the Company, is a director emeritus of OCR. We believe that the terms of these agreements are no less favorable to VITAS than we could negotiate with an unrelated party.

17. Cash Overdrafts Payable

Included in accounts payable at June 30, 2007 are cash overdrafts payable of \$10.8 million (December 31, 2006 - \$10.6 million).

18. Uncertain Tax Positions

On January 1, 2007, we adopted FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement 109", which prescribes a comprehensive model for how to recognize, measure, present and disclose in financial statements uncertain tax positions taken or expected to be taken on a tax return. Upon adoption of FIN 48, the financial statements reflect expected future tax consequences of such uncertain positions assuming the taxing authorities' full knowledge of the position and all relevant facts. FIN 48 also revises disclosure requirements and introduces an annual, tabular roll-forward of the unrecognized tax benefits.

The cumulative effect upon adoption of FIN 48 was to reduce our accrual for uncertain tax positions by approximately \$4.7 million, which has been recorded in retained earnings as of January 1, 2007 in the accompanying consolidated balance sheet. After adoption, we had approximately \$1.3 million in unrecognized tax benefits. The majority of this amount would affect our effective tax rate, if recognized in a future period. The years ended December 31, 2003 and forward remain open for review for Federal income tax purposes at Chemed and Roto-Rooter. For VITAS, fiscal years beginning after February 24, 2004 (the date of acquisition) remain open for review for Federal income tax purposes. The earliest open year relating to any of our material state jurisdictions is the fiscal year ended December 31, 2002. During the next twelve months, we anticipate that the net change in unrecognized tax benefits will be a decrease of approximately \$150,000 to \$200,000 due to normal quarterly provisions and releases upon expiration of certain statutes of limitation.

12

As permitted by FIN 48, we reclassified interest related to our accrual for uncertain tax positions to separate interest accounts. We believe this change in accounting method is preferable as it more accurately classifies the impact of interest in our consolidated balance sheet and consolidated statement of income. As of June 30, 2007, we have approximately \$179,000 accrued in interest related to uncertain tax positions. These accruals are included in other current liabilities in the accompanying consolidated balance sheet. For the three and six months ended June 30, 2007, we have recorded approximately \$13,000 and \$27,000,

Edgar Filing: CHEMED CORP - Form 10-Q

respectively for interest related to uncertain tax positions in interest expense in the accompanying consolidated statement of income.

19. Recent Accounting Statements

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"), which permits an entity to measure certain financial assets and financial liabilities at fair value. Entities that elect the fair value option will report unrealized gains and losses in earnings at each reporting date. The fair value option may be elected on an instrument-by-instrument basis, with a few exceptions, as long as it is applied to the entire instrument. The fair value election is irrevocable unless a new election date occurs. SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. We are currently evaluating the impact SFAS 159 will have on our financial condition and results of operations, if any.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" ("SFAS 157"), which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles (GAAP). It sets a common definition of fair value to be used throughout GAAP. The new standard is designed to make the measurement of fair value more consistent and comparable and improve disclosures about those measures. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating the impact SFAS 157 will have on our financial condition and results of operations.

13

20. Guarantor Subsidiaries

Our 1.875% Notes are fully and unconditionally guaranteed on an unsecured, joint 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 June 30, 2007 and December 31, 2006 for the balance sheet, the three and six months ended June 30, 2007 and 2006 for the income statement and the six months ended June 30, 2007 and 2006 for the statement of cash flows (dollars in thousands):

Condensed Consolidating Balance Sheet

| As of June 30, 2007 ----- | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Con Ad |
|---|----------|---------------------------|-------------------------------|-----------|
| | | | | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 2,318 | \$ (1,132) | \$ 6,283 | \$ |
| Accounts receivable, less allowances | 873 | 98,428 | 566 | |
| Intercompany receivables | 68,060 | - | - | |
| Inventories | - | 6,116 | 636 | |
| Prepaid income taxes | 3,047 | (102) | (341) | |
| Current deferred income taxes | 51 | 19,518 | 259 | |
| Prepaid expenses and other current assets | 1,329 | 7,135 | 106 | |
| | | | | |
| Total current assets | 75,678 | 129,963 | 7,509 | |
| | | | | |

Edgar Filing: CHEMED CORP - Form 10-Q

| | | | | |
|--------------------------------------|------------|------------|-----------|-------|
| Investments of deferred compensation | | | | |
| plans held in trust | 13,638 | 15,722 | | - |
| Note receivable | 14,701 | - | | - |
| Properties and equipment, at cost, | | | | |
| less accumulated depreciation | 4,501 | 66,167 | | 1,760 |
| Identifiable intangible assets | | | | |
| less accumulated amortization | - | 67,194 | | 1 |
| Goodwill | - | 430,638 | | 4,571 |
| Other assets | 12,237 | 2,540 | | 772 |
| Investments in subsidiaries | 475,770 | 11,276 | | - |
| | ----- | ----- | ----- | ----- |
| Total assets | \$ 596,525 | \$ 723,500 | \$ 14,613 | \$ |
| | ===== | ===== | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | | | |
|--|------------|------------|-----------|--------|
| Accounts payable | \$ (247) | \$ 46,324 | \$ 289 | \$ |
| Intercompany payables | - | 67,338 | | 722 |
| Current portion of long-term debt | 10,000 | 162 | | - |
| Income taxes | (1,575) | 1,500 | | 912 |
| Accrued insurance | 1,852 | 35,232 | | - |
| Accrued salaries and wages | 2,016 | 30,407 | | 623 |
| Other current liabilities | 2,426 | 17,996 | | 216 |
| | | | | |
| Deferred income taxes | (27,877) | 31,320 | | 403 |
| Long-term debt | 267,800 | 235 | | - |
| Deferred compensation liabilities | 13,826 | 15,086 | | - |
| Other liabilities | 3,643 | 2,130 | | 172 |
| Stockholders' equity | 324,661 | 475,770 | | 11,276 |
| | ----- | ----- | ----- | ----- |
| Total Liabilities and Stockholders' Equity | \$ 596,525 | \$ 723,500 | \$ 14,613 | \$ |
| | ===== | ===== | ===== | ===== |

14

As of December 31, 2006

| ----- | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Con Ad |
|---|-----------|---------------------------|-------------------------------|-----------|
| ----- | ----- | ----- | ----- | ----- |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 25,258 | \$ (1,314) | \$ 5,330 | \$ |
| Accounts receivable, less allowances | 1,547 | 91,065 | | 474 |
| Intercompany receivables | 84,784 | - | | - |
| Inventories | - | 6,169 | | 409 |
| Current deferred income taxes | (117) | 17,591 | | 315 |
| Current assets of discontinued operations | - | 5,418 | | - |
| Prepaid expenses and other current assets | 809 | 9,087 | | 72 |
| | ----- | ----- | ----- | ----- |
| Total current assets | 112,281 | 128,016 | 6,600 | |
| | ----- | ----- | ----- | ----- |
| Investments of deferred compensation | | | | |
| plans held in trust | 12,214 | 13,499 | | - |
| Note receivable | 14,701 | - | | - |
| Properties and equipment, at cost, | | | | |
| less accumulated depreciation | 6,412 | 62,023 | | 1,705 |
| Identifiable intangible assets | | | | |
| less accumulated amortization | - | 69,213 | | 2 |

Edgar Filing: CHEMED CORP - Form 10-Q

| | | | |
|--|------------|------------|-----------|
| Goodwill | - | 430,671 | 4,379 |
| Noncurrent assets of discontinued operations | - | 287 | - |
| Other assets | 12,845 | 2,514 | 709 |
| Investments in subsidiaries | 430,399 | 8,628 | - |
| | ----- | ----- | ----- |
| Total assets | \$ 588,852 | \$ 714,851 | \$ 13,395 |
| | ===== | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Accounts payable | \$ (189) | \$ 49,502 | \$ 431 |
| Intercompany payables | - | 84,036 | 748 |
| Current portion of long-term debt | - | 209 | - |
| Income taxes | (5,906) | 11,680 | 991 |
| Accrued insurance | 2,938 | 35,519 | - |
| Accrued salaries and wages | 2,530 | 32,731 | 729 |
| Current liabilities of discontinued operations | - | 12,215 | - |
| Other current liabilities | 9,568 | 11,715 | 1,401 |
| | ----- | ----- | ----- |
| Deferred income taxes | (6,946) | 32,780 | 467 |
| Long-term debt | 150,000 | 331 | - |
| Deferred compensation liabilities | 12,247 | 13,267 | - |
| Other liabilities | 3,249 | 467 | - |
| Stockholders' equity | 421,361 | 430,399 | 8,628 |
| | ----- | ----- | ----- |
| Total Liabilities and Stockholders' Equity | \$ 588,852 | \$ 714,851 | \$ 13,395 |
| | ===== | ===== | ===== |

15

Condensed Consolidating Income Statement

| For the six months ended June 30, 2007 | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Con Ad |
|--|----------|------------------------|----------------------------|--------|
| ----- | ----- | ----- | ----- | ----- |
| Net sales and service revenues | \$ - | \$ 529,530 | \$ 12,296 | \$ |
| | ----- | ----- | ----- | ----- |
| Cost of services provided and goods sold | - | 370,776 | 6,187 | |
| Selling, general and administrative expenses | 10,358 | 81,642 | 2,160 | |
| Depreciation | 243 | 9,135 | 299 | |
| Amortization | 589 | 2,020 | - | |
| Other operating income | (1,138) | - | - | |
| | ----- | ----- | ----- | ----- |
| Total costs and expenses | 10,052 | 463,573 | 8,646 | |
| | ----- | ----- | ----- | ----- |
| Income/ (loss) from operations | (10,052) | 65,957 | 3,650 | |
| Interest expense | (6,896) | (245) | (1) | |
| Loss on extinguishment of debt | (13,715) | - | - | |
| Other income - net | 9,598 | (6,627) | 86 | |
| | ----- | ----- | ----- | ----- |
| Income/ (loss) before income taxes | (21,065) | 59,085 | 3,735 | |

Edgar Filing: CHEMED CORP - Form 10-Q

| | | | |
|--------------------------------------|-----------|-----------|----------|
| Income tax (provision)/ benefit | 7,869 | (22,433) | (1,537) |
| Equity in net income of subsidiaries | 38,850 | 2,198 | - |
| Net income | \$ 25,654 | \$ 38,850 | \$ 2,198 |

For the six months ended June 30, 2006

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Con Ad |
|--|-----------|---------------------------|-------------------------------|-----------|
| Continuing Operations | | | | |
| Net sales and service revenues | \$ - | \$ 482,894 | \$ 10,095 | \$ |
| Cost of services provided and goods sold | - | 350,128 | 5,010 | |
| Selling, general and administrative expenses | 5,069 | 70,052 | 1,954 | |
| Depreciation | 248 | 7,682 | 284 | |
| Amortization | 605 | 2,006 | 2 | |
| Total costs and expenses | 5,922 | 429,868 | 7,250 | |
| Income/ (loss) from operations | (5,922) | 53,026 | 2,845 | |
| Interest expense | (9,294) | (333) | (18) | |
| Loss on extinguishment of debt | (430) | - | - | |
| Other income - net | 10,804 | (8,813) | 28 | |
| Income/ (loss) before income taxes | (4,842) | 43,880 | 2,855 | |
| Income tax (provision)/ benefit | 1,851 | (16,943) | (1,213) | |
| Equity in net income of subsidiaries | 28,048 | 1,642 | - | |
| Income from continuing operations | 25,057 | 28,579 | 1,642 | |
| Discontinued Operations | - | (531) | - | |
| Net income | \$ 25,057 | \$ 28,048 | \$ 1,642 | \$ |

16

For the three months ended June 30, 2007

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Con Ad |
|--|---------|---------------------------|-------------------------------|-----------|
| Net sales and service revenues | \$ - | \$ 265,235 | \$ 6,152 | \$ |
| Cost of services provided and goods sold | - | 185,671 | 3,045 | |
| Selling, general and administrative expenses | 4,713 | 40,438 | 939 | |
| Depreciation | 121 | 4,687 | 154 | |
| Amortization | 284 | 1,010 | - | |
| Total costs and expenses | 5,118 | 231,806 | 4,138 | |
| Income/ (loss) from operations | (5,118) | 33,429 | 2,014 | |

Edgar Filing: CHEMED CORP - Form 10-Q

| | | | |
|--------------------------------------|----------|-----------|----------|
| Interest expense | (3,273) | (126) | (1) |
| Loss on extinguishment of debt | (13,715) | - | - |
| Other income/(expense) - net | 4,492 | (2,343) | 39 |
| | ----- | ----- | ----- |
| Income/ (loss) before income taxes | (17,614) | 30,960 | 2,052 |
| Income tax (provision)/ benefit | 6,518 | (11,644) | (839) |
| Equity in net income of subsidiaries | 20,529 | 1,213 | - |
| | ----- | ----- | ----- |
| Net income | \$ 9,433 | \$ 20,529 | \$ 1,213 |
| | ===== | ===== | ===== |

For the three months ended June 30, 2006

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Con Ad |
|--|-----------|---------------------------|-------------------------------|-----------|
| ----- | | | | |
| Continuing Operations | | | | |
| Net sales and service revenues | \$ - | \$ 243,752 | \$ 5,316 | \$ |
| | ----- | ----- | ----- | ----- |
| Cost of services provided and goods sold | - | 176,547 | 2,556 | |
| Selling, general and administrative expenses | 2,520 | 35,232 | 869 | |
| Depreciation | 112 | 3,827 | 143 | |
| Amortization | 313 | 1,003 | 1 | |
| | ----- | ----- | ----- | ----- |
| Total costs and expenses | 2,945 | 216,609 | 3,569 | |
| | ----- | ----- | ----- | ----- |
| Income/ (loss) from operations | (2,945) | 27,143 | 1,747 | |
| Interest expense | (4,153) | (149) | 2 | |
| Other income - net | 5,102 | (4,591) | 13 | |
| | ----- | ----- | ----- | ----- |
| Income/ (loss) before income taxes | (1,996) | 22,403 | 1,762 | |
| Income tax (provision)/ benefit | 800 | (8,683) | (736) | |
| Equity in net income of subsidiaries | 14,038 | 1,026 | - | |
| | ----- | ----- | ----- | ----- |
| Income from continuing operations | 12,842 | 14,746 | 1,026 | |
| Discontinued Operations | - | (708) | - | |
| | ----- | ----- | ----- | ----- |
| Net income | \$ 12,842 | \$ 14,038 | \$ 1,026 | \$ |
| | ===== | ===== | ===== | ===== |

17

Condensed Consolidating Statement of Cash Flows

For the six months ended June 30, 2007

| | Parent | Guarantor Subsidiaries | Su |
|--|------------|---------------------------|-------|
| ----- | | | |
| Cash Flow from Operating Activities: | | | |
| Net cash provided/(used) by operating activities | \$ (5,430) | \$ 34,957 | \$ |
| | ----- | ----- | ----- |

Edgar Filing: CHEMED CORP - Form 10-Q

Cash Flow from Investing Activities:

| | | |
|---|---------|----------|
| Capital expenditures | (156) | (13,437) |
| Business combinations, net of cash acquired | - | (62) |
| Net payments from sale of discontinued operations | (2,166) | (3,739) |
| Proceeds from sale of property and equipment | 2,962 | 35 |
| Other uses - net | (450) | (114) |
| Net cash provided/ (used) by investing activities | 190 | (17,317) |

Cash Flow from Financing Activities:

| | | |
|--|-----------|----------|
| Increase/(decrease) in cash overdrafts payable | 784 | (618) |
| Change in intercompany accounts | 16,723 | (16,696) |
| Dividends paid to shareholders | (2,997) | - |
| Purchases of treasury stock | (130,748) | - |
| Proceeds from exercise of stock options | 2,069 | - |
| Excess tax benefit on share-based compensation | 2,370 | - |
| Purchase of note hedges | (54,939) | - |
| Proceeds from issuance of warrants | 27,614 | - |
| Net increase in revolving credit facility | 13,300 | - |
| Proceeds from issuance of long-term debt | 300,000 | - |
| Debt issuance costs | (6,395) | - |
| Repayment of long-term debt | (185,500) | (143) |
| Other sources and uses - net | 19 | (1) |

Net cash provided/ (used) by financing activities (17,700) (17,458)

Net increase/(decrease) in cash and cash equivalents (22,940) 182

Cash and cash equivalents at beginning of year 25,258 (1,314)

Cash and cash equivalents at end of period \$ 2,318 \$ (1,132) \$

18

For the six months ended June 30, 2006

| | Parent | Guarantor Subsidiaries | Su |
|---|-------------|---------------------------|----|
| Cash Flow from Operating Activities: | | | |
| Net cash provided/(used) by operating activities | \$ (11,211) | \$ 32,900 | \$ |
| Cash Flow from Investing Activities: | | | |
| Capital expenditures | (62) | (8,810) | |
| Business combinations, net of cash acquired | - | (814) | |
| Net proceeds from sale of discontinued operations | (2,990) | - | |
| Proceeds from sale of property and equipment | 30 | 131 | |
| Other uses - net | (327) | (283) | |
| Net cash used by investing activities | (3,349) | (9,776) | |
| Cash Flow from Financing Activities: | | | |
| Increase in cash overdrafts payable | 585 | 2,812 | |
| Change in intercompany accounts | 26,449 | (26,012) | |
| Dividends paid to shareholders | (3,156) | - | |
| Purchases of treasury stock | (3,992) | - | |

Edgar Filing: CHEMED CORP - Form 10-Q

| | | |
|--|----------|---------------|
| Proceeds from exercise of stock options | 3,849 | - |
| Excess tax benefit on share-based compensation | 4,941 | - |
| Net increase in revolving credit facility | 19,000 | - |
| Debt issuance costs | (154) | - |
| Repayment of long-term debt | (84,363) | (136) |
| Other sources - net | 30 | 257 |
| | ----- | ----- |
| Net cash used by financing activities | (36,811) | (23,079) |
| | ----- | ----- |
| Net increase/(decrease) in cash and cash equivalents | (51,371) | 45 |
| Cash and cash equivalents at beginning of year | 54,871 | (1,419) |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 3,500 | \$ (1,374) \$ |
| | ===== | ===== |

19

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

Executive Summary

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

The following is a summary of the key operating results for the three and six months ended June 30, 2007 and 2006 (in thousands except per share amounts):

| | Three Months Ended June 30, | |
|--|--------------------------------|---------------|
| | 2007 | 2006 |
| | ----- | ----- |
| Consolidated service revenues and sales | \$ 271,387 | \$ 249,068 \$ |
| Consolidated income from continuing operations | \$ 9,433 | \$ 13,550 \$ |
| Diluted EPS from continuing operations | \$ 0.38 | \$ 0.50 \$ |

For the three months ended June 30, 2007 compared to 2006, the increase in consolidated service revenues and sales was driven by an 8% increase at VITAS and an 11% increase at Roto-Rooter. The increase at VITAS was primarily the result of a 7% increase in average daily census (ADC) from the second quarter of 2006 and the October 1, 2006 Medicare reimbursement rate increase. The increase at Roto-Rooter was driven primarily by a 2% increase in job count combined with an approximate 9% increase due to price and job mix changes. Consolidated income from continuing operations and diluted EPS from continuing operations decreased

Edgar Filing: CHEMED CORP - Form 10-Q

as a result of the \$13.7 million loss on extinguishment of debt, as described further below.

For the six months ended June 30, 2007 compared to 2006, the increase in consolidated service revenues and sales was driven by a 10% increase at VITAS and an 11% increase at Roto-Rooter. The increase at VITAS was primarily the result of an 8% increase in average daily census (ADC) from the first six months of 2006 and the October 1, 2006 Medicare reimbursement rate increase. The increase at Roto-Rooter was driven primarily by a 2% increase in job count combined with an approximate 9% increase due to price and job mix changes. Consolidated income from continuing operations and diluted EPS from continuing operations increased due to the higher sales and related gross margin which was offset by the \$13.7 million loss on extinguishment of debt, as described further below.

In the second quarter of 2007, we completed the following financing and capital transactions:

- o Entered into a new senior secured credit facility due in 2012 which includes a \$100 million term loan, a \$175 million revolving credit facility and a \$100 million expansion feature;
- o Using the proceeds from the senior secured credit facility, we retired our \$150 million, 8.75% Senior Notes at a price of 104.375% plus accrued but unpaid interest;
- o Issued \$200 million of 1.875% Senior Convertible Notes due in 2014
- o Using the proceeds from the Senior Convertible Notes, we repaid a portion of our revolving line of credit and we repurchased approximately 1.5 million shares of our outstanding capital stock.

The effect of these transactions was to reduce our overall borrowing rate and to reduce the number of shares of capital stock outstanding. In connection with these transactions, we incurred a loss on extinguishment of debt of approximately \$13.7 million related to the premium paid to retire our 8.75% Senior Notes and the write-off of deferred debt costs from the Senior Notes and replaced credit facility.

20

Financial Condition

Liquidity and Capital Resources

Significant changes in the balance sheet accounts from December 31, 2006 to June 30, 2007 include the following:

- o The increase in accounts receivable from \$93.1 million at December 31, 2006 to \$99.9 million at June 30, 2007 is due mainly to the timing of payments received from Medicare.
- o The increase in current portion of long-term debt and long-term debt is the result of our refinancing transactions described in detail below.
- o The decrease in long-term deferred income taxes of \$22.5 million relates mainly to the treatment of the premium payment made in conjunction with our purchased call options described below.

Edgar Filing: CHEMED CORP - Form 10-Q

- o The increase in treasury stock of \$133.8 million relates mainly to our share repurchase program.

Net cash provided by continuing operations increased \$10.4 million from a source of cash by continuing operations of \$19.8 million for the first six months of 2006, to a source of cash of \$30.2 million for the first six months of 2007, due primarily to the increase in the write-off of unamortized debt issuance costs and long-term incentive compensation both of which are non-cash expenses.

On May 2, 2007, we entered into a new senior secured credit facility with JPMorgan Chase Bank (the "2007 Facility") to replace our existing credit facility. The 2007 Facility includes a \$100 million term loan, a \$175 million revolving credit facility and a \$100 million expansion feature. The facility has a 5-year maturity with principal payments on the term loan due quarterly and on the revolving credit facility due at maturity. Interest is payable quarterly at a floating rate equal to our choice of various indices plus a specified margin based on our leverage ratio. The interest rate at the inception of the agreement is LIBOR plus 0.875%. In connection with replacing our existing credit facility, we wrote-off approximately \$2.3 million in deferred debt costs. The write-off of deferred debt costs has been recorded as loss on extinguishment of debt in the accompanying statement of income.

On May 4, 2007, we used the proceeds from the 2007 Facility to fund the redemption of our \$150 million, 8.75% Senior Notes due 2011. The redemption was made pursuant to the terms of the indenture at a price of 104.375% plus accrued but unpaid interest. In connection with the redemption, we wrote-off approximately \$4.8 million in deferred debt costs. The premium payment of \$6.6 million and the write-off of deferred debt costs have been recorded as loss on extinguishment of debt in the accompanying statement of income.

On May 8, 2007, we entered into a Purchase Agreement with J.P. Morgan Securities Inc. and Citigroup Global Markets Inc. (the "Initial Purchasers") for issuance and sale of \$180 million in aggregate principal amount of our 1.875% Senior Convertible Notes due 2014 (the "Notes"). On May 9, 2007, the Initial Purchasers exercised an over-allotment option to purchase an additional \$20 million in aggregate principal amount of Notes. On May 14, 2007 a total of \$200 million in aggregate principal amount of the Notes were sold to the Initial Purchasers at a price of \$1,000 per Note, less an underwriting fee of \$27.50 per Note. The Notes are to be resold by the Initial Purchasers pursuant to Rule 144A of the Securities Act of 1933, as amended (the "Securities Act").

We received approximately \$194 million in net proceeds from the sale of the Notes after paying underwriting fees, legal and other expenses. Proceeds from the offering were used to purchase treasury shares of our stock and to pay down a portion of the 2007 Facility. We will pay interest on the Notes on May 15 and November 15 of each year, beginning on November 15, 2007. The Notes will mature on May 15, 2014. The Notes are guaranteed on an unsecured senior basis by each of our subsidiaries that is a borrower or a guarantor under any senior credit facility, as defined in the Indenture. The Notes are convertible, under certain circumstances, into our Capital Stock at a conversion rate of 12.3874 shares per \$1,000 principal amount of Notes. This conversion rate is equivalent to an initial conversion price of approximately \$80.73 per share. Prior to March 1, 2014, holders may convert their Notes under certain circumstances. On and after March 1, 2014, the Notes will be convertible at any time prior to the close of business three days prior to the stated maturity date of the Notes. Upon conversion of a Note, if the conversion value is \$1,000 or less, holders will receive cash equal to the lesser of \$1,000 or the conversion value of the number of shares of our Capital Stock. If the conversion value exceeds \$1,000, in addition to this, holders will receive shares of our Capital Stock for the excess amount. The Indenture contains customary terms and covenants that upon certain events of default, including without limitation, failure to pay when due

Edgar Filing: CHEMED CORP - Form 10-Q

any principal amount, a fundamental change or certain cross defaults in other agreements or instruments, occurring and continuing, either the trustee or the holders of 25% in aggregate principal amount of the Notes may declare the principal of the Notes and any accrued and unpaid interest through the date of such declaration immediately due and payable. In the case of certain events of bankruptcy or insolvency relating to any significant subsidiary or to us, the principal amount of the Notes and accrued interest automatically becomes due and payable.

21

Pursuant to the guidance in Emerging Issues Task Force ("EITF") 90-19, "Convertible Bonds with Issuer Option to Settle for Cash Upon Conversion", EITF 00-19 "Accounting for Derivative Instruments Indexed to, and Potentially Settled in a Company's Own Stock" and EITF 01-6 "The Meaning of Indexed to a Company's Own Stock", the Notes are accounted for as convertible debt in the accompanying consolidated balance sheet and the embedded options within the Notes have not been accounted for as separate derivatives.

We, our subsidiary guarantors and the Initial Purchasers also entered into a Registration Rights Agreement (the "RRA") dated May 14, 2007. Pursuant to the RRA, we agreed to, no later than the 120th day after May 14, 2007, file a shelf registration statement covering resale of the Notes and the Capital Stock issuable upon conversion pursuant to Rule 415 under the Securities Act. We will also cause the shelf registration statement to be declared effective under the Securities Act no later than the 180th day after May 14, 2007. If the shelf registration is not filed or effective by the appropriate dates, additional interest may accrue on the Notes.

On May 8, 2007 we entered into a purchased call transaction and a warrant transaction (written call) with JPMorgan Chase, National Association and Citibank, N.A. (the "Counterparties"). The purchased call options cover approximately 2,477,000 shares of our Capital Stock, which under most circumstances represents the maximum number of shares of Capital Stock that underlie the Notes. Concurrently with entering into the purchased call options, we entered into warrant transactions with each of the Counterparties. Pursuant to the warrant transactions, we sold to the Counterparties warrants to purchase in the aggregate approximately 2,477,000 shares of Capital Stock. In most cases, the sold warrants may not be exercised prior to the maturity of the Notes.

The purchased call options and sold warrants are separate contracts with the Counterparties, are not part of the terms of the Notes and do not affect the rights of holders under the Notes. A holder of the Notes will not have any rights with respect to the purchased call options or the sold warrants. The purchased call options are expected to reduce the potential dilution upon conversion of the Notes if the market value per share of the Capital Stock at the time of exercise is greater than approximately \$80.73, which corresponds to the initial conversion price of the Notes. The sold warrants have an exercise price of \$105.44 and are expected to result in some dilution should the price of our Capital Stock exceed this exercise price.

Our net cost for these transactions was approximately \$27.3 million. Pursuant to EITF 00-19 and EITF 01-6, the purchased call option and the sold warrants are accounted for as equity transactions. Therefore, our net cost was recorded as a decrease in shareholders' equity in the accompanying consolidated balance sheet.

On June 29, 2007, we paid approximately \$35.5 million of the \$100 million term note under the 2007 Facility using a combination of cash on hand and a draw from the revolving credit facility. Of the amount paid in June 2007, \$33.0 million represents a prepayment. The following is a schedule by year of

Edgar Filing: CHEMED CORP - Form 10-Q

required long-term debt repayments as of June 30, 2007 (in thousands):

| | | |
|-----------------------|----|----------|
| June 2008 | \$ | 10,162 |
| June 2009 | | 10,059 |
| June 2010 | | 10,059 |
| June 2011 | | 10,059 |
| June 2012 | | 37,858 |
| Thereafter | | 200,000 |
| | | ----- |
| Total debt | | 278,197 |
| Less: Current portion | | (10,162) |
| | | ----- |
| Total long-term debt | \$ | 268,035 |
| | | ===== |

We are in compliance with all debt covenants as of June 30, 2007. We have issued \$34.3 million in standby letters of credit as of June 30, 2007 mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of June 30, 2007, the Company has approximately \$127.4 million of unused lines of credit available and eligible to be drawn down under its revolving credit facility, excluding the expansion feature. We believe our liquidity and sources of capital are satisfactory for the Company's needs in the foreseeable future.

22

Commitments and Contingencies

Collectively, the terms of our credit agreements provide that we are required 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 June 30, 2007 and anticipate remaining in compliance throughout 2007.

Like other large California employers, our VITAS subsidiary faces allegations of purported class-wide wage and hour violations. It was party to a class action lawsuit filed in the Superior Court of California, Los Angeles County, in April of 2004 by Ann Marie Costa, Ana Jimenez, Mariea Ruteaya and Gracetta Wilson ("Costa"). This case alleged failure to pay overtime wages for hours worked "off the clock" on administrative tasks, including voicemail retrieval, time entry, travel to and from work, and pager response. This case also alleged VITAS failed to provide meal and break periods to a purported class of California nurses, home health aides and licensed clinical social workers. The case also sought payment of penalties, interest, and Plaintiffs' attorney fees. VITAS contested these allegations. During 2006 we reached a tentative settlement and on June 26, 2006, the court granted final approval of the settlement (\$19.9 million).

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 ("Santos"). This case, filed by the Costa case Plaintiffs' counsel, makes similar allegations of 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 likewise seeks payment of penalties, interest and Plaintiffs' attorney fees. VITAS contests these allegations. The lawsuit is in its early stage 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

Edgar Filing: CHEMED CORP - Form 10-Q

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.

On April 7, 2005, we announced 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. We have incurred pretax expense related to complying with OIG requests and defending the litigation of \$74,000 and \$140,000 for the three and six months ended June 30, 2007, respectively (2006 - \$342,000 and \$474,000, respectively). A qui tam complaint filed in U.S. District Court for the Southern District of Florida was dismissed by the Court with prejudice in July 2007.

The government may continue to investigate the complaint's allegations. We are unable to predict the outcome of this matter 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 and defending the litigation can adversely affect us through defense costs, diversion of our time and related publicity.

23

Results of Operations

Three-months ended June 30, 2007 versus 2006-Consolidated Results

Our service revenues and sales for the second quarter of 2007 increased 9.0% versus revenues for the second quarter of 2006. Of this increase, \$14.2 million was attributable to VITAS and \$8.1 million was attributable to Roto-Rooter, as follows (dollars in thousands):

| | Increase/ (Decrease) | |
|-------------------|----------------------|---------|
| | Amount | Percent |
| VITAS | | |
| Routine homecare | \$ 14,026 | 11.6% |
| Continuous care | (1,476) | -5.0% |
| General inpatient | 1,025 | 4.7% |
| Medicare cap | 599 | - |
| Roto-Rooter | | |
| Plumbing | 4,491 | 14.4% |
| Drain cleaning | 2,128 | 6.1% |
| Other | 1,526 | 13.7% |
| | | |
| Total | \$ 22,319 | 9.0% |
| | | |

The increase in VITAS' revenues for the second quarter of 2007 versus the second quarter of 2006 is attributable to an increase in ADC of 7.4% for routine homecare and a 2.2% increase in general inpatient offset by a 6.0% decline in continuous care. ADC is a key measure we use to monitor volume growth in our hospice business. Changes in total program admissions and average length of stay for our patients are the main drivers of changes in ADC. The remainder of the revenue increase is due primarily to the annual increase in Medicare reimbursement rates in the fourth quarter of 2006. In excess of 90% of VITAS'

Edgar Filing: CHEMED CORP - Form 10-Q

revenues for the period were from Medicare and Medicaid. Additionally, we did not incur a Medicare cap liability during the second quarter of 2007.

The increase in the plumbing revenues for the second quarter of 2007 versus 2006 comprises an 8.8% increase in the number of jobs performed and a 5.6% increase caused by increased prices and job mix. The increase in drain cleaning revenues for the second quarter of 2007 versus 2006 comprised a 1.2% decline in the number of jobs offset by a 7.3% increase caused by increased prices and job mix. The increase in other revenues is attributable primarily to increased revenue from the independent contractor operations.

The consolidated gross margin was 30.5% in the second quarter of 2007 as compared with 28.1% in the second quarter of 2006. On a segment basis, VITAS' gross margin was 22.1% in the second quarter of 2007 and 20.3% in the second quarter of 2006. The increase in VITAS' gross margin in 2007 is primarily attributable to not having a Medicare cap liability in 2007, a reclassification of approximately \$1.6 million of costs from cost of revenue to central support in 2007, as well as excess patient care capacity in the prior year period. We corrected our excess capacity during the later part of the second quarter in 2006. The Roto-Rooter segment's gross margin was 48.6% in the second quarter of 2007 and 45.3% in the second quarter of 2006. The increase in Roto-Rooter's gross margin in 2007 is primarily attributable to better retention of service technicians, which enhances overall productivity of our workforce as well as reduces our workers' compensation costs.

Selling, general and administrative expenses ("SG&A") for the second quarter of 2007 were \$46.1 million, an increase of \$7.5 million (19.3%) versus the second quarter of 2006. The increase is due to higher revenue, which increase our variable selling expenses as well as stock-based compensation expense of \$2.5 million comprised of \$1.6 million related to the LTIP pay out in May 2007 and \$900,000 related to stock option grants made in May 2007 and June 2006. There was no material stock-based compensation expense in the second quarter of 2006.

Income from operations increased \$4.4 million from \$25.9 million in the second quarter of 2006 to \$30.3 million in the second quarter of 2007. The increase is primarily the result of the increase in sales and gross margin.

Interest expense, substantially all of which is incurred at Corporate, declined from \$4.3 million in the second quarter of 2006 to \$3.4 million in the second quarter of 2007. This decline is due primarily to the refinancing transactions in May 2007, as discussed above. Additionally, the loss on extinguishment of debt is the result of the May 2007 refinancing transactions.

24

Other income-net increased from \$524,000 in the second quarter of 2006 to \$2.2 million in the second quarter of 2007. The increase is attributable mainly to market gains from investments held in our deferred compensation benefit plans. The expense related to these plans is included in SG&A expense.

Our effective income tax rate was 38.9% in the second quarter of 2006 compared to 38.7% in the second quarter of 2007.

Income from continuing operations decreased \$4.1 million or 30.4% in the second quarter of 2007 as compared to the second quarter of 2006 due to the loss on extinguishment of debt. The loss on extinguishment of debt was partially offset by the increases in sales and gross margin discussed above. The \$708,000 loss from discontinued operations in the second quarter of 2006 relates to VITAS' Phoenix, AZ program that was sold in November 2006. Income from continuing operations and net income for both periods included the following

Edgar Filing: CHEMED CORP - Form 10-Q

aftertax special items/adjustments that (increased)/reduced aftertax earnings
(in thousands):

| | Three Months Ended June 30, | |
|--|--------------------------------|--------|
| | 2007 | 2006 |
| Loss on extinguishment of debt | \$ 8,726 | \$ - |
| Long-term incentive compensation award | 1,013 | - |
| Stock-option expense | 570 | 12 |
| Legal expenses of OIG investigation | 46 | 212 |
| | ----- | ----- |
| | \$ 10,355 | \$ 224 |
| | ===== | ===== |

Three-months ended June 30, 2007 versus 2006-Segment Results

The change in aftertax earnings for the second quarter of 2007 versus the second quarter of 2006 is due to (in thousands):

| | Net Income Increase/ (Decrease) | |
|-------------------------|------------------------------------|---------|
| | Amount | Percent |
| VITAS | \$ 2,047 | 16.9% |
| Roto-Rooter | 3,692 | 52.7% |
| Corporate | (9,856) | -177.3% |
| Discontinued operations | 708 | 100.0% |
| | ----- | |
| | \$ (3,409) | -26.5% |
| | ===== | |

25

Six-months ended June 30, 2007 versus 2006-Consolidated Results

Our service revenues and sales for the first six months of 2007 increased 9.9% versus revenues for the first six months of 2006. Of this increase, \$32.2 million was attributable to VITAS and \$16.6 million was attributable to Roto-Rooter, as follows: (dollars in thousands):

| | Increase/ (Decrease) | |
|-------------------|----------------------|---------|
| | Amount | Percent |
| VITAS | | |
| Routine homecare | \$ 32,341 | 13.8% |
| Continuous care | (2,718) | -4.6% |
| General inpatient | 1,472 | 3.3% |
| Medicare cap | 1,071 | -179% |

Edgar Filing: CHEMED CORP - Form 10-Q

| | | |
|----------------|-----------|-------|
| Roto-Rooter | | |
| Plumbing | 10,033 | 16.5% |
| Drain cleaning | 4,462 | 6.2% |
| Other | 2,176 | 9.4% |
| | ----- | |
| Total | \$ 48,837 | 9.9% |
| | ===== | |

The increase in VITAS' revenues for the first six months of 2007 versus the first six months of 2006 is attributable to an increase in ADC of 9.4% for routine homecare and 0.5% for general inpatient care offset by a 7.1% decline in continuous care. ADC is a key measure we use to monitor volume growth in our hospice business. Changes in total program admissions and average length of stay for our patients are the main drivers of changes in ADC. The remainder of the revenue increases is due primarily to the annual increase in Medicare reimbursement rates in the fourth quarter of 2006. In excess of 90% of VITAS' revenues for the period were from Medicare and Medicaid. Additionally, we did not incur a Medicare cap liability during the first six months of 2007.

The increase in the plumbing revenues for the first six months of 2007 versus 2006 comprises a 9.3% increase in the number of jobs performed and a 7.2% increase due to increased price and job mix. The increase in drain cleaning revenues for the first six months of 2007 versus 2006 comprised a 1.0% decline in the number of jobs offset by a 7.2% increase due to increased price and job mix. The increase in other revenues is attributable primarily to increased revenue from the independent contractor operations.

The consolidated gross margin was 30.4% in the first six months of 2007 as compared with 28.0% in the first six months of 2006. On a segment basis, VITAS' gross margin was 22.5% in the first six months of 2007 and 19.9% in the first six months of 2006. The increase in VITAS' gross margin in 2007 is primarily attributable to not having a Medicare cap liability in 2007 as well as excess patient care capacity in the prior year period. We corrected our excess capacity during the later part of the second quarter in 2006. The Roto-Rooter segment's gross margin was 47.6% in the first six months of 2007 as compared to 45.4% in the first six months of 2006. The increase in Roto-Rooter's gross margin in 2007 is primarily attributable to better retention of service technicians, which enhances overall productivity of our workforce as well as reduces our workers' compensation costs.

SG&A for the first six months of 2007 were \$94.2 million, an increase of \$17.1 million (22%) versus the first six months of 2006. The increase is largely due to increased revenue which increases our variable selling expenses as well as 2007 stock-based compensation expense of \$8.5 million comprised of \$7.0 million related to the LTIP and \$1.5 million related to stock option grants made in May 2007 and June 2006. There was no material stock-based compensation expense recorded in the first six months of 2006.

Income from operations increased \$9.7 million from \$49.9 million in the first six months of 2006 to \$59.6 million in the first six months of 2007. The increase is primarily the result of the increase in sales and gross margin.

Interest expense, substantially all of which is incurred at Corporate, declined from \$9.6 million in the first six months of 2006 to \$7.1 million in the first six months of 2007. This decline is due to the reduction in debt outstanding that occurred in February 2006 when we refinanced and repaid a significant portion of our debt as well as the refinancing transactions in May 2007, as discussed above. Additionally, the loss on extinguishment of debt is the result of the May 2007 refinancing transactions.

Edgar Filing: CHEMED CORP - Form 10-Q

26

Other income-net increased from \$2.0 million in the first six months of 2006 to \$3.1 million in the first six months of 2007. The increase is attributable mainly to market gains from investments held in our deferred compensation benefit plans. The expense related to these plans is included in SG&A expense.

Our effective income tax rate was 38.6% for the first six months of 2007 as compared to 38.9% for the same period of 2006.

Income from continuing operations increased \$66,000 or 0.3% in the first six months of 2007 as compared to the first six months of 2006. Increased income from continuing operations was due to increases in sales and gross margin in 2007 which were almost fully offset by the \$13.7 million loss on extinguishment of debt. The \$531,000 loss from discontinued operations in the first six months of 2006 relates to VITAS' Phoenix, AZ program that was sold in November 2006. Income from continuing operations and net income for both periods included the following aftertax special items/adjustments that (increased)/reduced aftertax earnings (in thousands):

| | Six Months Ended June 30, | |
|--|------------------------------|-------|
| | 2007 | 2006 |
| Loss on extinguishment of debt | \$ 8,726 | \$ 27 |
| Long-term incentive compensation award | 4,427 | |
| Stock-option expense | 941 | 1 |
| Gain on sale of Florida call center | (724) | |
| Legal expenses of OIG investigation | 87 | 29 |
| Other | (296) | |
| | \$ 13,161 | \$ 57 |

Six-months ended June 30, 2007 versus 2006-Segment Results

The change in aftertax earnings for the first six months of 2007 versus the first six months of 2006 is due to (in thousands):

| | Increase/ (Decrease) | |
|-------------------------|----------------------|---------|
| | Amount | Percent |
| VITAS | \$ 6,354 | 27.9% |
| Roto-Rooter | 5,977 | 42.1% |
| Corporate | (12,265) | -107.6% |
| Discontinued operations | 531 | -100.0% |
| | \$ 597 | 2.4% |

27

Edgar Filing: CHEMED CORP - Form 10-Q

The following chart updates historical unaudited financial and operating data of VITAS, acquired in February 2004: (dollars in thousands, except dollars per patient day)

| | Three Months Ended June 30, Six | |
|---|---------------------------------|------------|
| | 2007 | 2006 |
| OPERATING STATISTICS | | |
| Net revenue (a) | | |
| Homecare | \$ 134,794 | \$ 120,768 |
| Inpatient | 22,745 | 21,720 |
| Continuous care | 28,162 | 29,638 |
| Total before Medicare cap allowance | 185,701 | 172,126 |
| Medicare cap allowance | - | (599) |
| Total | \$ 185,701 | \$ 171,527 |
| Net revenue as a percent of total before Medicare cap allowance | | |
| Homecare | 72.6% | 70.2 % |
| Inpatient | 12.2 | 12.6 |
| Continuous care | 15.2 | 17.2 |
| Total before Medicare cap allowance | 100.0 | 100.0 |
| Medicare cap allowance | - | (0.3) |
| Total | 100.0% | 99.7 % |
| Average daily census ("ADC") (days) | | |
| Homecare | 6,915 | 6,275 |
| Nursing home | 3,574 | 3,488 |
| Routine homecare | 10,489 | 9,763 |
| Inpatient | 413 | 404 |
| Continuous care | 504 | 537 |
| Total | 11,406 | 10,704 |
| Total Admissions | 13,658 | 12,987 |
| Total Discharges | 13,359 | 12,528 |
| Average length of stay (days) | 76.6 | 68.0 |
| Median length of stay (days) | 13.0 | 13.0 |
| ADC by major diagnosis | | |
| Neurological | 33.0% | 33.1 % |
| Cancer | 19.7 | 20.0 |
| Cardio | 14.6 | 15.0 |
| Respiratory | 6.9 | 7.2 |
| Other | 25.8 | 24.7 |
| Total | 100.0% | 100.0 % |
| Admissions by major diagnosis | | |
| Neurological | 18.0% | 19.6 % |
| Cancer | 35.9 | 35.0 |

Edgar Filing: CHEMED CORP - Form 10-Q

| | | | | |
|---|----|--------|----|---------|
| Cardio | | 12.9 | | 13.2 |
| Respiratory | | 7.7 | | 7.0 |
| Other | | 25.5 | | 25.2 |
| | | ----- | | ----- |
| Total | | 100.0% | | 100.0 % |
| | | ===== | | ===== |
| Direct patient care margins (b) | | | | |
| Routine homecare | | 51.1% | | 49.5 % |
| Inpatient | | 18.9 | | 20.9 |
| Continuous care | | 17.7 | | 20.3 |
| Homecare margin drivers | | | | |
| (dollars per patient day) | | | | |
| Labor costs | \$ | 48.96 | \$ | 48.31 |
| Drug costs | | 7.82 | | 8.39 |
| Home medical equipment | | 5.78 | | 5.51 |
| Medical supplies | | 2.11 | | 2.11 |
| Inpatient margin drivers | | | | |
| (dollars per patient day) | | | | |
| Labor costs | \$ | 262.37 | \$ | 258.32 |
| Continuous care margin drivers | | | | |
| (dollars per patient day) | | | | |
| Labor costs | \$ | 484.13 | \$ | 463.62 |
| Bad debt expense as a percent of revenues | | 0.9% | | 0.9 % |
| Accounts receivable -- | | | | |
| days of revenue outstanding | | 37.5 | | 40.1 |

(a) VITAS has 6 large (greater than 450 ADC), 15 medium (greater than 200 but less than 450 ADC) and 23 small (less than 200 ADC) hospice programs. There are two programs with Medicare cap cushion of less than 10% for the 2007 measurement period.

(b) Amounts exclude indirect patient care and administrative costs, as well as Medicare cap billing limitation.

28

Recent Accounting Statements

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"), which permits an entity to measure certain financial assets and financial liabilities at fair value. Entities that elect the fair value option will report unrealized gains and losses in earnings at each reporting date. The fair value option may be elected on an instrument-by-instrument basis, with a few exceptions, as long as it is applied to the entire instrument. The fair value election is irrevocable unless a new election date occurs. SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. We are currently evaluating the impact SFAS 159 will have on our financial condition and results of operations, if any.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" ("SFAS 157"), which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles (GAAP). It sets a common definition of fair value to be used throughout GAAP. The new standard is designed to make the measurement of fair value more consistent and comparable and improve disclosures about those measures. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating the impact SFAS 157 will have on

Edgar Filing: CHEMED CORP - Form 10-Q

our financial condition and results of operations.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

Regarding Forward-Looking Information

In addition to historical information, this report contains forward-looking statements and performance trends that are based upon assumptions subject to certain known and unknown risks, uncertainties, contingencies and other factors. 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. 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.

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 June 30, 2007, we had \$77.8 million of variable rate debt outstanding. A 1% change in the interest rate on our variable interest rate borrowings would have a \$778,000 full-year impact on our interest expense. At June 30, 2007, we believe the fair value of our Senior Convertible Notes approximates book value.

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 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, 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.

29

PART II OTHER INFORMATION

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

The following table shows the repurchase activity related to our share repurchase programs for the six months ended June 30, 2007:

| | Total Number of Shares Repurchased | Weighted Average Price Paid Per Share | Cumulative S Repurchased the Progr |
|--------------------------------------|--|--|--|
| ----- | | | |
| July 2006 Program | | | |
| ----- | | | |
| January 1 through January 31, 2007 | 67,379 | \$ 36.41 | 26 |
| February 1 through February 28, 2007 | 111,900 | \$ 46.86 | 37 |

Edgar Filing: CHEMED CORP - Form 10-Q

| | | | |
|---|--------------|-------|-------|
| March 1 through March 31, 2007 | 446,800 \$ | 48.29 | 81 |
| | ----- | | ===== |
| First Quarter Total - July 2006 Program | 626,079 \$ | 46.76 | |
| | ===== | ===== | |
| April 1 through April 30, 2007 | - \$ | - | 81 |
| May 1 through May 31, 2007 | 220,072 \$ | 61.87 | 1,03 |
| | ----- | | ===== |
| Second Quarter Total - July 2006 Program | 220,072 \$ | 61.87 | |
| | ===== | ===== | |
| April 2007 Program | | | |
| ----- | | | |
| April 1 through April 30, 2007 | - \$ | - | |
| May 1 through May 31, 2007 | 1,272,928 \$ | 65.85 | 1,27 |
| June 1 through June 30, 2007 | 8,500 \$ | 64.98 | 1,28 |
| | ----- | | ===== |
| Second Quarter Total - April 2007 Program | 1,281,428 \$ | 65.85 | |
| | ===== | ===== | |

The amount authorized for repurchase under the July 2006 Program is \$50 million. On April 26, 2007, our Board of Directors authorized a \$150 million share repurchase plan.

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

A. Chemed Corporation held its annual meeting of stockholders on May 21, 2007.

B. The names of directors elected at this annual meeting are as follows:

| | |
|------------------------|---------------------|
| Edward L. Hutton | Walter L. Krebs |
| Kevin J. McNamara | Sandra E. Laney |
| Charles H. Erhart, Jr. | Timothy S. O'Toole |
| Joel F. Gemunder | Donald E. Saunders |
| Patrick P. Grace | George J. Walsh III |
| Thomas C. Hutton | Frank E. Wood |

30

C. The stockholders then ratified the selection by the Board of Directors of PricewaterhouseCoopers LLP as independent accountants for the Company and its consolidated subsidiaries for the year 2007: 23,116,944.439 votes were cast in favor of the proposal, 259,886.606 votes were cast against it, 44,282.993 votes abstained, and there were no broker non-votes.

With respect to the election of directors, the number of votes cast for each nominee was as follows:

| | For | Withheld |
|-------------------|----------------|-------------|
| | ----- | ----- |
| Edward L. Hutton | 22,831,898.521 | 589,215.517 |
| Kevin J. McNamara | 22,968,046.374 | 453,067.664 |

Edgar Filing: CHEMED CORP - Form 10-Q

| | | |
|------------------------|----------------|---------------|
| Charles H. Erhart, Jr. | 22,641,814.115 | 779,299.923 |
| Joel F. Gemunder | 22,222,996.649 | 1,198,117.389 |
| Patrick P. Grace | 23,036,708.604 | 384,405.434 |
| Thomas C. Hutton | 22,850,660.094 | 570,453.944 |
| Walter L. Krebs | 23,198,194.086 | 222,919.952 |
| Sandra E. Laney | 22,449,273.878 | 971,840.160 |
| Timothy S. O'Toole | 22,742,609.374 | 678,504.664 |
| Donald E. Saunders | 23,196,244.654 | 224,869.384 |
| George J. Walsh III | 22,974,863.654 | 446,250.384 |
| Frank E. Wood | 23,201,572.481 | 219,541.557 |

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. |

31

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 Corporat

(Registrant)

Dated: August 3, 2007

By: Kevin J. McNama

Kevin J. McNama
(President and Chief Execu

Dated: August 3, 2007

By: David P. Willia

David P. Willia

Edgar Filing: CHEMED CORP - Form 10-Q

(Vice President and Chief Fi

Dated: August 3, 2007

By: Arthur V. Tucker,

Arthur V. Tucker,
(Vice President and