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CHEMED CORP
Form 10-Q
May 02, 2007

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

(Mark One)

Quarterly Report Under Section 13 or 15 (d) of the Securities Exchange Act of 1934
[X] For the Quarterly Period Ended March 31, 2007
Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 1-8351

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

Delaware 31-0791746
(State or other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)

2600 Chemed Center, 255 E. Fifth Street, Cincinnati, Ohio 45202
(Address of principal executive offices) (Zip code)

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

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

Yes [X] No

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No [X]

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

Table with 3 columns: Class, Amount, Date. Row 1: Capital Stock, 25,300,310 Shares, March 31, 2007. Row 2: \$1 Par Value.

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CHEMED CORPORATION AND
SUBSIDIARY COMPANIES

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

	March 31, 2007 -----	December 31, 2006 -----
ASSETS		
Current assets		
Cash and cash equivalents	\$ 30,137	\$ 29,274
Accounts receivable less allowances of \$ 10,392 (2006 - \$ 10,180)	85,211	93,086
Inventories	6,752	6,578
Current deferred income taxes	21,595	17,789

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Current assets of discontinued operations	-	5,418
Prepaid expenses and other current assets	9,110	9,968
	-----	-----
Total current assets	152,805	162,113
Investments of deferred compensation plans held in trust	27,736	25,713
Note receivable	14,701	14,701
Properties and equipment, at cost, less accumulated depreciation of \$ 80,233 (2006 - \$ 77,107)	69,295	70,140
Identifiable intangible assets less accumulated amortization of \$ 14,211 (2006 - \$ 13,201)	68,205	69,215
Goodwill	435,040	435,050
Noncurrent assets of discontinued operations	-	287
Other assets	16,194	16,068
	-----	-----
Total Assets	\$ 783,976	\$ 793,287
	=====	=====
LIABILITIES		
Current liabilities		
Accounts payable	\$ 55,272	\$ 49,744
Current portion of long-term debt	164	209
Income taxes	9,410	6,765
Accrued insurance	39,889	38,457
Accrued compensation	29,110	35,990
Current liabilities of discontinued operations	-	12,215
Other current liabilities	26,653	22,684
	-----	-----
Total current liabilities	160,498	166,064
Deferred income taxes	24,970	26,301
Long-term debt	150,235	150,331
Deferred compensation liabilities	27,157	25,514
Other liabilities	5,382	3,716
	-----	-----
Total liabilities	368,242	371,926
	-----	-----
STOCKHOLDERS' EQUITY		
Capital stock - authorized 80,000,000 shares \$1 par; issued 29,035,918 shares (2006 - 28,849,918 shares)	29,036	28,850
Paid-in capital	260,641	252,639
Retained earnings	234,914	215,517
Treasury stock - 3,735,608 shares (2006 - 3,023,635 shares), at cost	(111,293)	(78,064)
Deferred compensation payable in Company stock	2,436	2,419
	-----	-----
Total Stockholders' Equity	415,734	421,361
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 783,976	\$ 793,287
	=====	=====

See accompanying notes to unaudited financial statements.

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	Three Months Ended March 31,	
	2007	2006
Continuing operations		
Service revenues and sales	\$ 270,439	\$ 243,921
Cost of services provided and goods sold (excluding depreciation)	188,247	176,035
Selling, general and administrative expenses	48,070	38,454
Depreciation	4,715	4,132
Amortization	1,315	1,296
Other operating income	(1,138)	-
Total costs and expenses	241,209	219,917
Income from operations	29,230	24,004
Interest expense	(3,742)	(5,345)
Loss on extinguishment of debt	-	(430)
Other income--net	869	1,495
Income before income taxes	26,357	19,724
Income taxes	(10,136)	(7,686)
Income from continuing operations	16,221	12,038
Discontinued operations, net of income taxes	-	177
Net income	\$ 16,221	\$ 12,215
Earnings Per Share		
Income from continuing operations	\$ 0.63	\$ 0.46
Net income	\$ 0.63	\$ 0.47
Average number of shares outstanding	25,716	26,044
Diluted Earnings Per Share		
Income from continuing operations	\$ 0.62	\$ 0.45
Net income	\$ 0.62	\$ 0.46
Average number of shares outstanding	26,162	26,723
Cash Dividends Per Share	\$ 0.06	\$ 0.06

See accompanying notes to unaudited financial statements.

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	Three Months Ended March 31,	
	2007	2006
Cash Flows from Operating Activities		
Net income	\$ 16,221	\$ 12,215
Adjustments to reconcile net income to net cash provided/(used) by operating activities:		
Depreciation and amortization	6,030	5,428
Noncash long-term incentive compensation	4,719	-
Provision for uncollectible accounts receivable	2,084	2,012
Amortization of debt issuance costs	455	444
Provision for deferred income taxes	(345)	(1,292)
Write off of unamortized debt issuance costs	-	430
Discontinued operations	-	(177)
Changes in operating assets and liabilities, excluding amounts acquired in business combinations		
Decrease in accounts receivable	5,275	19,638
Increase in inventories	(174)	(225)
Decrease in prepaid expenses and other current assets	858	901
Decrease in accounts payable and other current liabilities	(9,091)	(13,460)
Increase in income taxes	9,538	8,704
Increase in other assets	(2,102)	(1,917)
Increase in other liabilities	2,218	1,051
Excess tax benefit on share-based compensation	(611)	(3,289)
Other uses	(375)	(49)
	-----	-----
Net cash provided by continuing operations	34,700	30,414
Net cash provided by discontinued operations	-	2,326
	-----	-----
Net cash provided by operating activities	34,700	32,740
Cash Flows from Investing Activities		
Capital expenditures	(5,764)	(3,852)
Net uses from the sale of discontinued operations	(3,876)	(1,684)
Proceeds from sales of property and equipment	2,975	65
Business combinations, net of cash acquired	(62)	(384)
Other uses	(299)	(305)
	-----	-----
Net cash used by investing activities	(7,026)	(6,160)
Cash Flows from Financing Activities		
Purchases of treasury stock	(24,199)	(2,318)
Increase in cash overdrafts payable	(1,608)	786
Dividends paid	(1,555)	(1,572)
Excess tax benefit on share-based compensation	611	3,289
Repayment of long-term debt	(141)	(84,497)
Issuance of capital stock, net of costs	130	2,360
Net increase in revolving line of credit	-	44,000
Debt issuance costs	-	(150)
Other sources/(uses)	(49)	57
	-----	-----
Net cash used by financing activities	(26,811)	(38,045)
	-----	-----
Increase/(Decrease) in Cash and Cash Equivalents	863	(11,465)
Cash and cash equivalents at beginning of year	29,274	57,133
	-----	-----
Cash and cash equivalents at end of period	\$ 30,137	\$ 45,668
	=====	=====

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See accompanying notes to unaudited financial statements.

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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. Capital Stock Transactions

In July 2006, we announced a \$50 million on-going stock repurchase program. Our previous stock repurchase program, approved in February 2000, had remaining authorization of \$8 million. For the three months ended March 31, 2007 we repurchased 626,079 shares at a weighted average cost of \$46.76 per share. There were no shares repurchased during the three months ended March 31, 2006.

On May 15, 2006, our shareholders approved an amendment to our Certificate of Incorporation increasing the number of authorized shares of capital stock from 40 million shares to 80 million shares.

3. 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 further 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

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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 quarter ended March 31, 2007. Additionally, we recorded approximately \$472,000 in November and December 2006 related to estimated billing limitations for the 2007 measurement period. That amount was reversed during the first quarter of 2007.

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4. Segments

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

	Three months ended March 31,	
	2007	2006
Service Revenues and Sales		
VITAS	\$ 184,049	\$ 166,057
Roto-Rooter	86,390	77,864
Total	\$ 270,439	\$ 243,921
	=====	=====
Aftertax Earnings		
VITAS	\$ 14,987	\$ 10,680
Roto-Rooter	9,486	7,201
Total	24,473	17,881
Corporate	(8,252)	(5,843)
Discontinued operations	-	177
Net income	\$ 16,221	\$ 12,215
	=====	=====

5. 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 March 31, 2007, Patient Care is current on all interest payments related to these notes.

6. 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):

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For the Three Months Ended March 31,	Income from Continuing Operations			Net Income		
	Income	Shares	Earnings per Share	Income	Shares	Earnings per Share
2007						
Earnings	\$ 16,221	25,716	\$ 0.63	\$ 16,221	25,716	\$ 0.63
Dilutive stock options	-	386		-	386	
Nonvested stock awards	-	60		-	60	
Diluted earnings	\$ 16,221	26,162	\$ 0.62	\$ 16,221	26,162	\$ 0.62
2006						
Earnings	\$ 12,038	26,044	\$ 0.46	\$ 12,215	26,044	\$ 0.47
Dilutive stock options	-	590		-	590	
Nonvested stock awards	-	89		-	89	
Diluted earnings	\$ 12,038	26,723	\$ 0.45	\$ 12,215	26,723	\$ 0.46

7. Other Operating Income

During the first quarter of 2007, we completed the sale of Roto-Rooter's call center 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.

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8. Other Income -- Net

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

	Three Months Ended March 31,	
	2007	2006
Interest income	\$ 767	\$ 973
(Loss)/gain on trading investments of employee benefit trust	212	493
Other - net	(110)	29
Total other income	\$ 869	\$ 1,495

9. Other Current Liabilities

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

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	2007	2006
Accrued legal settlements	\$ 1,859	\$ 1,889
Accrued divestiture expenses	2,618	2,612
Accrued Medicare cap estimate	9,503	3,373
Other	12,673	14,810
	\$ 26,653	\$ 22,684
	\$ 26,653	\$ 22,684

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

10. 2002 Executive Long-Term Incentive Plan

In February 2007, we met the cumulative earnings target specified in the 2002 Long-Term Incentive Plan (LTIP) and on March 9, 2007, the Compensation/Incentive Committee of the Board 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. No market price components of the LTIP were reached during the three months ended March 31, 2007 or 2006.

11. Long-term Debt and Extinguishment of Debt

On March 31, 2006, we repaid in full our \$84.4 million term loan with JPMorgan Chase Bank. The term loan was paid with \$40.4 million of cash on hand and the remainder with a draw on our revolving credit facility. At that time, we also amended the \$175 million revolving credit facility with JPMorgan Chase Bank to reduce the commitment and annual fees and to reduce the floating interest rate by approximately 50 basis points. The interest rate of the amended revolving credit agreement is LIBOR plus 1.25%. The amended revolving credit facility also includes an "accordion" feature that allows us the opportunity to expand the facility by \$50 million. In connection with the repayment of the term loan, we recorded a write-off of unamortized debt issuance costs of \$430,000.

We are in compliance with all debt covenants as of March 31, 2007. We have issued \$33.3 million in standby letters of credit as of March 31, 2007 mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of March 31, 2007, the Company has approximately \$141.7 million of unused lines of credit available and eligible to be drawn down under its revolving credit facility, excluding the accordion feature.

See Note 19 for discussion of significant changes to our capitalization structure subsequent to March 31, 2007.

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 March 31, 2007, we had notes receivable from its independent contractors totaling \$1.8 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 5.4 years at March 31, 2007. During the quarter ended March 31, 2007, we recorded revenues of \$5.4 million (2006-\$5.0 million) and pretax profits of \$2.5 million (2006-\$2.0 million) from

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our independent contractors.

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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, ESOP's, excess benefit plans and other similar plans were \$3.6 million and \$2.4 million for the three months ended March 31, 2007 and 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 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 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

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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. A qui tam complaint has been filed in U.S. District Court for the Southern District of Florida. We are conferring with the U.S. Attorney regarding our defenses to the complaint allegations. The U.S. Attorney has not decided whether to intervene in the qui tam action. We have incurred pretax expense related to complying with OIG requests and defending the litigation of \$66,000 and \$132,000 for the three months ended March 31, 2007 and 2006, respectively.

The government continues to investigate the complaint's allegations, against which VITAS is presently defending. We are unable to predict the outcome of this matter or the impact, if any, that the investigation may have on the 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.

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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 thereafter for one-year terms. 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 \$8.2 million and \$6.7 for three months ended March 31, 2007 and 2006, respectively and has accounts payable of \$3.6 million at March 31, 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 March 31, 2007 are cash overdrafts payable of \$9.0 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.

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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 \$1.2 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 amount of unrecognized tax benefits will decrease by approximately \$150,000 to \$200,000 in total due to normal quarterly provisions and releases upon expiration of certain statutes of limitation.

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 March 31, 2007, we have approximately \$166,000 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 months ended March 31, 2007, we have recorded approximately \$14,000 for interest related to uncertain tax positions in interest expense in the accompanying consolidated statement of income.

19. Subsequent Events

On April 4, 2007, we issued a contingent bond redemption notice regarding the \$150 million, 8 3/4% senior notes due in 2011. The redemption is being made pursuant to the terms of the indenture dated February 24, 2004 at a redemption price of 104.375% of the principal amount plus accrued but unpaid interest. This redemption notice was contingent upon the completion of the new credit facility discussed in the next paragraph. The senior notes are redeemable on or after May 4, 2007. We expect to write-off approximately \$4.8 million in deferred debt costs related to the senior notes. We will also incur a \$6.5 million charge related to the 4.375% premium to be paid upon redemption. These amounts will be recorded in the second quarter of 2007.

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 indexes 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 will write-off approximately \$2.3 million in the second quarter of 2007 related to deferred debt costs.

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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, has approximately \$13.6 million remaining as of March 31, 2007.

20. Recent Accounting Statements

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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.

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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 months ended March 31, 2007 and 2006 (in thousands except per share amounts):

	Three Months Ended March 31,	
	2007	2006
Consolidated service revenues and sales	\$ 270,439	\$ 243,921
Consolidated income from continuing operations	\$ 16,221	\$ 12,038
Diluted EPS from continuing operations	\$ 0.62	\$ 0.45

The increase in consolidated service revenues and sales was driven by an 11% increase at both VITAS and Roto-Rooter. The increase at VITAS was primarily the result of a 10% increase in average daily census (ADC) from the first

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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% price increase. Consolidated income from continuing operations and diluted EPS from continuing operations increased as a result of the higher service revenues and sales, which allowed us to further leverage our current cost structure.

Starting in 2006, we merged several hospice programs and eliminated the corresponding Medicare provider numbers in three states. We are in the process of eliminating one additional Medicare provider number that does not currently have an estimated Medicare cap liability. Due to these combinations, coupled with improving admission and median length of stay metrics, no revenue reduction for Medicare cap billing limitations has been recorded for the quarter ended March 31, 2007. Additionally, we recorded approximately \$472,000 in November and December 2006 related to estimated billing limitations for the 2007 measurement period. That amount was reversed during the first quarter of 2007. Therefore, as of March 31, 2007, we have no estimated liability for Medicare cap related to our programs for the 2007 measurement period.

Financial Condition

Liquidity and Capital Resources

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

- o The decrease in accounts receivable from \$93.1 million at December 31, 2006 to \$85.2 million at March 31, 2007 is due mainly to the timing of payments received from Medicare.
- o The increase in treasury stock of \$33.2 million relates mainly to our share repurchase program.

Net cash provided by continuing operations increased \$4.3 million from a source of cash by continuing operations of \$30.4 million for the first three months of 2006, to a source of cash of \$34.7 million for the first three months of 2007, due primarily to the increase in net income.

We have issued \$33.3 million in standby letters of credit as of March 31, 2007 mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. At March 31, 2007, we had approximately \$141.7 million available lines of credit eligible to be drawn down under our amended credit agreement with JPMorgan Chase, excluding the \$50 million accordion feature. Management believes its liquidity and sources of capital are satisfactory for the Company's needs in the foreseeable future.

On April 4, 2007, we issued a contingent bond redemption notice regarding the \$150 million, 8 3/4% senior notes due in 2011. The redemption is being made pursuant to the terms of the indenture dated February 24, 2004 at a redemption price of 104.375% of the principal amount plus accrued but unpaid interest. This redemption notice was contingent upon the completion of the new credit facility discussed in the next paragraph. The senior notes are redeemable on or after May 4, 2007. We expect to write-off approximately \$4.8 million in deferred debt costs related to the senior notes. We will also incur a \$6.5 million charge related to the 4.375% premium to be paid upon redemption. These amounts will be recorded in the second quarter of 2007.

On May 2, 2007, we entered into a new senior secured credit facility with

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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 indexes 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 will write-off approximately \$2.3 million in the second quarter of 2007 related to deferred debt costs.

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, has approximately \$13.6 million remaining as of March 31, 2007.

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 March 31, 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 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

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from us. A qui tam complaint has been filed in U.S. District Court for the Southern District of Florida. We are conferring with the U.S. Attorney regarding our defenses to the complaint allegations. The U.S. Attorney has not decided whether to intervene in the qui tam action. We have incurred pretax expense related to complying with OIG requests and defending the litigation of \$66,000 and \$132,000 for the three months ended March 31, 2007 and 2006, respectively.

The government continues to investigate the complaint's allegations, against which VITAS is presently defending. We are unable to predict the outcome of this matter or the impact, if any, that the investigation may have on the 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.

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Results of Operations

First Quarter 2007 versus First Quarter 2006-Consolidated Results

Our service revenues and sales for the first quarter of 2007 increased 10.9% versus revenues for the first quarter of 2006. Of this increase, \$18.0 million was attributable to VITAS and \$8.5 million was attributable to Roto-Rooter (dollar amounts in thousands):

	Increase/ (Decrease)	
	Amount	Percent
VITAS		
Routine homecare	\$ 18,316	16.2%
Continuous care	(1,242)	-4.2%
General inpatient	446	1.9%
Medicare cap	472	-
Roto-Rooter		
Plumbing	5,543	18.9%
Drain cleaning	2,335	6.4%
Other	648	5.5%

Total	\$ 26,518	10.9%
	=====	

The increase in VITAS' revenues for the first quarter of 2007 versus the first quarter of 2006 is attributable to an increase in ADC of 11.5% for routine homecare offset by a 8.4% and 1.0% decline in continuous care and general inpatient, respectively. 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.

The increase in the plumbing revenues for the first quarter of 2007 versus 2006 comprises a 9.9% increase in the number of jobs performed and a 9.0% increase in the average price per job. The increase in drain cleaning revenues for the first quarter of 2007 versus 2006 comprised a 0.8% decline in the number of jobs offset by a 7.2% increase in the average price per job. The increase in other revenues is attributable primarily to increased revenue from the independent contractor operations.

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The consolidated gross margin was 30.4% in the first quarter of 2007 as compared with 27.8% in the first quarter of 2006. On a segment basis, VITAS' gross margin was 22.8% in the first quarter of 2007 and 19.5% in the first quarter of 2006. The increase in VITAS' gross margin in 2007 is primarily attributable to an unusual increase in seasonal discharge rates in January and February 2006 coupled with excess patient care capacity during the same period. We corrected our excess staffing capacity during the second and third quarter of 2006. The unusually high seasonal variance experienced in 2006 was not repeated in 2007. These factors combined to increase VITAS' gross margin during the first quarter of 2007. The Roto-Rooter segment's gross margin was 46.6% in the first quarter of 2007 and 45.5% in the first 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.

Selling, general and administrative expenses ("SG&A") for the first quarter of 2007 were \$48.1 million, an increase of \$9.6 million (25.0%) versus the first quarter of 2006. The increase is largely due to 2007 stock-based compensation expense of \$6.0 million comprised of \$5.4 million related to the LTIP and \$600,000 related to stock option grants made in June 2006. There was no such stock-based compensation expense in the first quarter of 2006. The remaining increase relates to increased variable expenses due to increases in revenues.

Income from operations increased \$5.2 million from \$24.0 million in the first quarter of 2006 to \$29.2 million in the first quarter of 2007. The increase is primarily the result of the increase in gross margin discussed above.

Interest expense, substantially all of which is incurred at Corporate, declined from \$5.3 million in the first quarter of 2006 to \$3.7 million in the first quarter of 2007. This decline is due primarily to the reduction in debt outstanding that occurred in February 2006 when we refinanced and repaid a significant portion of our debt.

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Other income-net decreased from \$1.5 million in the first quarter of 2006 to \$869,000 in the first quarter of 2007. The decrease is attributable mainly to the fact that we have used excess cash during the first quarter of 2007 to repurchase our common stock. This has led to lower cash balances and thus, lower interest income during the first quarter of 2007.

Our effective income tax rate decreased from 39.0% in the first quarter of 2006 to 38.5% in the first quarter of 2007. The decrease in our effective tax rate relates mainly to the implementation of FIN 48.

Income from continuing operations increased \$4.2 million or 34.7% in the first quarter of 2007 as compared to the first quarter of 2006. Net income increased \$4.0 million or 32.8% in the first quarter of 2007 as compared to the first quarter of 2006. The \$177,000 income from discontinued operations in the first 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 aftertax special items/adjustments that increased/(reduced) aftertax earnings (in thousands):

Three Months Ended March 31,	
2007	2006
-----	-----

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Long-term incentive compensation award	\$ (3,414)	\$ -
Stock-option expense	(371)	-
Gain on sale of Florida call center	724	-
Loss on extinguishment of debt	-	(273)
Legal expenses of OIG investigation	(41)	(82)
Other	296	-
	-----	-----
	\$ (2,806)	\$ (355)
	=====	=====

First quarter 2007 versus First quarter 2006—Segment Results

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

	Net Income Increase/(Decrease)	
	Amount	Percent
	-----	-----
VITAS	\$ 4,307	40.3%
Roto-Rooter	2,285	31.7%
Corporate	(2,409)	-41.2%
Discontinued operations	(177)	-100.0%

	\$ 4,006	32.8%
	=====	

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

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	First Quarter	
	2007	2006 (c)
	-----	-----
OPERATING STATISTICS		
Net revenue (\$000) (a)		
Homecare	\$ 131,548	\$ 113,232
Inpatient	23,462	23,016
Continuous care	28,567	29,809
	-----	-----
Total before Medicare cap allowance	\$ 183,577	\$ 166,057
Medicare cap allowance	472	-
	-----	-----
Total	\$ 184,049	\$ 166,057
	=====	=====
Net revenue as a percent of total before Medicare cap allowance		
Homecare	71.6%	68.1%
Inpatient	12.8	13.9
Continuous care	15.6	18.0
	-----	-----
Total before Medicare cap allowance	100.0	100.0
Medicare cap allowance	0.3	-

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Total	100.3%	100.0%
Average daily census ("ADC") (days)		
Homecare	6,786	5,931
Nursing home	3,574	3,359
Routine homecare		
Inpatient	10,360	9,290
Continuous care	426	430
	523	571
Total	11,309	10,291
Total Admissions	14,110	13,773
Total Discharges	14,051	13,298
Average length of stay (days)	76.9	72.4
Median length of stay (days)	13.0	12.0
ADC by major diagnosis		
Neurological	33.3%	33.1%
Cancer	19.7	20.5
Cardio	14.6	14.8
Respiratory	7.0	7.1
Other	25.4	24.5
Total	100.0%	100.0%
Admissions by major diagnosis		
Neurological	18.9%	20.5%
Cancer	33.6	33.7
Cardio	13.3	13.8
Respiratory	7.8	7.9
Other	26.4	24.1
Total	100.0%	100.0%
Direct patient care margins (b)		
Routine homecare	50.8%	47.6%
Inpatient	20.1	23.1
Continuous care	20.0	18.3
Homecare margin drivers (dollars per patient day)		
Labor costs	\$ 49.12	\$ 51.32
Drug costs	8.18	7.38
Home medical equipment	5.75	5.54
Medical supplies	2.17	2.09
Inpatient margin drivers (dollars per patient day)		
Labor costs	\$ 252.42	\$ 247.69
Continuous care margin drivers (dollars per patient day)		
Labor costs	\$ 464.54	\$ 454.53
Bad debt expense as a percent of revenues	0.9%	0.9%
Accounts receivable -- days of revenue outstanding	38.1	39.4

- (a) VITAS has 6 large (greater than 450 ADC), 15 medium (greater than 200 but less than 450 ADC) and 21 small (less than 200 ADC) hospice programs. As of March 31, 2007, there were no programs with a Medicare cap liability for the 2007 measurement period. There were two programs with less than 10% cap cushion measured for the twelve month period ending March 31, 2007.

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- (b) Amounts exclude indirect patient care and administrative costs, as well as Medicare cap billing limitation.
- (c) Reclassified for operations discontinued in November 2006.

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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.

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 March 31, 2007, we had no variable rate debt outstanding. The quoted market value of our 8.75% fixed rate senior notes on March 31, 2007 is \$156 million (carrying value is \$150 million). We estimate that the fair value of the remainder of our long-term debt approximates its book value at March 31, 2007.

Item 4. Controls and Procedures

We carried out an evaluation, under the supervision of our President and

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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.

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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 three months ended March 31, 2007:

	Total Number of Shares Repurchased	Weighted Average Price Paid Per Share	Cumulative Shares Repurchased Under the Program	Do Rem T
	-----	-----	-----	-----
July 2006 Program				
January 1 through January 31, 2007	67,379	\$ 36.41	260,777	\$
February 1 through February 28, 2007	111,900	\$ 46.86	372,677	\$
March 1 through March 31, 2007	446,800	\$ 48.29	819,477	\$
First Quarter Total - July 2006 Program	----- 626,079	----- \$ 46.76	=====	=====

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 6. Exhibits

Exhibit No.	Description
-----	-----
10.1	Amended and Restated Senior Subordinated Promissory Note - \$12,500,000, originally dated October 11, 2002, by and among PCI Holding Corp. and Chemed Corporation as of February 23, 2007
10.2	Amended and Restated Senior Subordinated Promissory Note - \$2,201,378, originally dated October 10, 2006, by and among PCI Holding Corp. and Chemed Corporation as of February 23, 2007

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- 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.

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SIGNATURES

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

Chemed Corporation

(Registrant)

Dated: May 2, 2007

By: Kevin J. McNamara

Kevin J. McNamara
(President and Chief Executive Officer)

Dated: May 2, 2007

By: David P. Williams

David P. Williams
(Vice President and Chief Financial Officer)

Dated: May 2, 2007

By: Arthur V. Tucker, Jr.

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

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