

CHEMED CORP  
Form 10-Q  
July 25, 2013

UNITED STATES

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

(Mark One)

- Quarterly Report Under Section 13 or 15 (d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended June 30, 2013
- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 1-8351

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

Delaware  
(State or other jurisdiction of incorporation or organization)

31-0791746  
(IRS Employer Identification No.)

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

45202  
(Zip code)

(513) 762-6500  
(Registrant's telephone number, including area code)

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

Yes  No

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

Yes  No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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

Class	Amount	Date
Capital Stock \$1 Par Value	18,656,125 Shares	June 30, 2013

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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)

	June 30, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 113,047	\$ 69,531
Accounts receivable less allowances of \$12,221 (2012 - \$10,892)	76,356	93,333
Inventories	6,156	7,058
Current deferred income taxes	19,322	13,659
Prepaid income taxes	4,911	2,643
Prepaid expenses	13,518	11,447
Total current assets	233,310	197,671
Investments of deferred compensation plans	40,583	36,089
Properties and equipment, at cost, less accumulated depreciation of \$174,602 (2012 - \$164,607)	90,229	91,934
Identifiable intangible assets less accumulated amortization of \$31,212 (2012 - \$30,414)	57,348	57,177
Goodwill	466,271	465,832
Other assets	11,137	10,923
Total Assets	\$ 898,878	\$ 859,626
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 35,921	\$ 48,472
Current portion of long-term debt	179,154	-
Income taxes	4,561	4,938
Accrued insurance	42,616	40,654
Accrued compensation	42,156	45,457
Other current liabilities	33,840	17,301
Total current liabilities	338,248	156,822
Deferred income taxes	27,981	27,662
Long-term debt	-	174,890
Deferred compensation liabilities	39,660	35,599
Other liabilities	11,702	11,362
Total Liabilities	417,591	406,335
<b>STOCKHOLDERS' EQUITY</b>		
Capital stock - authorized 80,000,000 shares \$1 par; issued 32,074,611 shares (2012 - 31,589,366 shares)	32,075	31,589
Paid-in capital	466,980	437,364
Retained earnings	653,146	623,035
Treasury stock - 13,515,437 shares (2012 - 13,057,270)	(673,008 )	(640,732 )
Deferred compensation payable in Company stock	2,094	2,035

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Total Stockholders' Equity	481,287	453,291
Total Liabilities and Stockholders' Equity	\$898,878	\$859,626

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Service revenues and sales	\$357,198	\$354,170	\$723,839	\$707,113
Cost of services provided and goods sold (excluding depreciation)	255,359	257,368	519,666	514,813
Selling, general and administrative expenses	53,107	49,770	108,667	102,937
Depreciation	6,899	6,380	13,694	12,621
Amortization	1,181	1,127	2,308	2,240
Other operating expenses	14,760	-	14,760	-
Total costs and expenses	331,306	314,645	659,095	632,611
Income from operations	25,892	39,525	64,744	74,502
Interest expense	(3,697 )	(3,672 )	(7,791 )	(7,289 )
Other income - net	1,696	(970 )	3,402	1,125
Income before income taxes	23,891	34,883	60,355	68,338
Income taxes	(9,283 )	(13,609 )	(23,469 )	(26,619 )
Net income	\$14,608	\$21,274	\$36,886	\$41,719
Earnings Per Share				
Net income	\$0.79	\$1.12	\$1.99	\$2.20
Average number of shares outstanding	18,606	18,998	18,564	18,976
Diluted Earnings Per Share				
Net income	\$0.77	\$1.10	\$1.94	\$2.16
Average number of shares outstanding	18,966	19,369	18,980	19,357
Cash Dividends Per Share	\$0.18	\$0.16	\$0.36	\$0.32

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30,	
	2013	2012
Cash Flows from Operating Activities		
Net income	\$36,886	\$41,719
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,002	14,861
Deferred income taxes	(5,375 )	(4,895 )
Provision for uncollectible accounts receivable	5,432	4,730
Amortization of discount on convertible notes	4,264	3,985
Stock option expense	3,103	4,312
Noncash long-term incentive compensation	1,106	-
Changes in operating assets and liabilities, excluding amounts acquired in business combinations:		
Decrease/(increase) in accounts receivable	11,745	(8,543 )
Decrease in inventories	902	522
Decrease/(increase) in prepaid expenses	(2,017 )	672
Increase/(decrease) in accounts payable and other current liabilities	14,721	(3,593 )
Decrease in income taxes	(409 )	(1,029 )
Increase in other assets	(4,914 )	(2,283 )
Increase in other liabilities	4,401	4,493
Excess tax benefit on share-based compensation	(2,478 )	(1,069 )
Other sources	1,297	773
Net cash provided by operating activities	84,666	54,655
Cash Flows from Investing Activities		
Capital expenditures	(12,200 )	(18,474 )
Business combinations, net of cash acquired	(1,501 )	(1,500 )
Other sources	101	357
Net cash used by investing activities	(13,600 )	(19,617 )
Cash Flows from Financing Activities		
Purchases of treasury stock	(18,448 )	(11,138 )
Dividends paid	(6,775 )	(6,160 )
Capital stock surrendered to pay taxes on stock-based compensation	(4,269 )	(1,645 )
Proceeds from exercise of stock options	12,558	3,670
Excess tax benefit on share-based compensation	2,478	1,069
Increase/(decrease) in cash overdrafts payable	(11,608 )	985
Debt issuance costs	(1,104 )	-
Other sources/(uses)	(382 )	66
Net cash used by financing activities	(27,550 )	(13,153 )
Increase in Cash and Cash Equivalents	43,516	21,885
Cash and cash equivalents at beginning of year	69,531	38,081
Cash and cash equivalents at end of period	\$113,047	\$59,966

See accompanying notes to unaudited consolidated financial statements.





CHEMED CORPORATION AND SUBSIDIARY COMPANIES  
Notes to Unaudited Consolidated Financial Statements

1. Basis of Presentation

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

We have prepared the accompanying unaudited consolidated financial statements of Chemed in accordance with Rule 10-01 of SEC Regulation S-X. Consequently, we have omitted certain disclosures required under generally accepted accounting principles in the United States ("GAAP") for complete financial statements. The December 31, 2012 balance sheet data were derived from audited financial statements but do not include all disclosures required by GAAP. However, in our opinion, the financial statements presented herein contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our financial position, results of operations and cash flows. These financial statements are prepared on the same basis as and should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2012.

2. Revenue Recognition

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

As of June 30, 2013, VITAS has approximately \$1.0 million in unbilled revenue included in accounts receivable (December 31, 2012 - \$457,000). The unbilled revenue at VITAS relates to hospice programs currently undergoing various patient file reviews. Surveyors working on behalf of the U.S. Federal government review certain patient files for compliance with Medicare regulations. During the time the patient file is under review, we are unable to bill for care provided to those patients. We make appropriate provisions to reduce our accounts receivable balance for any governmental or other payer reviews resulting in denials of patient service revenue. We believe our hospice programs comply with all payer requirements at the time of billing. However, we cannot predict whether future billing reviews or similar audits by payers will result in material denials or reductions in revenue.

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.

During the three and six month periods ended June 30, 2013, we reversed Medicare cap liability for amounts recorded in the fourth quarter of 2012 for three programs' projected 2013 measurement period liability. We reversed these amounts as improving admissions trends in these programs indicate that the liability had been eliminated. During the second quarter of 2013 this reversal was partially offset by an \$855,000 Medicare cap liability for one program's projected 2013 measurement period liability.

Shown below is the Medicare cap liability activity for the periods ended (in thousands):

	June 30,		2012
	2013		
Beginning balance January 1,	\$1,261		\$2,965
2013 measurement period	(18	)	-
2012 measurement period	-		(2,577
Ending balance June 30,	\$1,243		\$388

Vitas provides charity care, in certain circumstances, to patients without charge when management of the hospice program determines, at the time services are performed, that the patient does not have the financial wherewithal to make payment. There is no revenue or associated accounts receivable in the accompanying consolidated financial statements related to charity care. The cost of charity care is calculated by taking the ratio of charity care days to total days of care and multiplying by total cost of care. The cost of charity care is as follows (in thousands):

Three months ended June 30,		Six months ended June 30,	
2013	2012	2013	2012
\$ 1,955	\$ 1,789	\$ 3,884	\$ 4,038

### 3. Segments

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
<b>Service Revenues and Sales</b>				
VITAS	\$263,568	\$265,213	\$534,895	\$526,060
Roto-Rooter	93,630	88,957	188,944	181,053
Total	\$357,198	\$354,170	\$723,839	\$707,113
<b>After-tax Earnings</b>				
VITAS	\$20,485	\$20,433	\$40,628	\$40,060
Roto-Rooter	1,414	8,074	11,038	15,569
Total	21,899	28,507	51,666	55,629
Corporate	(7,291 )	(7,233 )	(14,780 )	(13,910 )
Net income	\$14,608	\$21,274	\$36,886	\$41,719

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

### 4. Earnings per Share

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

For the Three Months Ended June 30,	Income	Net Income	
		Shares	Earnings per Share
2013			
Earnings	\$ 14,608	18,606	\$ 0.79
Dilutive stock options	-	267	
Nonvested stock awards	-	93	
Diluted earnings	\$ 14,608	18,966	\$ 0.77
2012			
Earnings	\$ 21,274	18,998	\$ 1.12
Dilutive stock options	-	288	

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Nonvested stock awards		-	83		
Diluted earnings	\$	21,274	19,369	\$	1.10

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For the Six Months Ended June 30, 2013	Income	Net Income	
		Shares	Earnings per Share
Earnings	\$ 36,886	18,564	\$ 1.99
Dilutive stock options	-	316	
Nonvested stock awards	-	100	
Diluted earnings	\$ 36,886	18,980	\$ 1.94
2012			
Earnings	\$ 41,719	18,976	\$ 2.20
Dilutive stock options	-	294	
Nonvested stock awards	-	87	
Diluted earnings	\$ 41,719	19,357	\$ 2.16

For the three and six-month periods ended June 30, 2013, 31,000 stock options were excluded from the computation of diluted earnings per share because they would have been anti-dilutive. For the three and six-month period ended June 30, 2012, 1.4 million stock options were excluded from the computation of diluted earnings per share.

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

The following table provides examples of how changes in our stock price impact the number of shares that would be included in our diluted earnings per share calculation at June 30, 2013. It also shows the impact on the number of shares issuable upon conversion of the Notes and settlement of the purchased call options and sold warrants:

Share Price	Shares Underlying 1.875%		Total Treasury Method	Shares Due to the Company	Incremental Shares Issued/ (Received) by the Company upon Conversion (b)
	Convertible Notes	Warrant Shares	Incremental Shares (a)	under Notes Hedges	
\$ 80.73	56,988	-	56,988	(60,964 )	(3,976 )
\$ 90.73	312,231	-	312,231	(334,015 )	(21,784 )
\$ 100.73	516,795	-	516,795	(552,852 )	(36,057 )
\$ 110.73	684,411	121,267	805,678	(732,163 )	73,515
\$ 120.73	824,260	321,473	1,145,733	(881,769 )	263,964
\$ 130.73	942,714	491,051	1,433,765	(1,008,487 )	425,278

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

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

## 5. Long-Term Debt

On January 18, 2013, we replaced our existing credit agreement with our Revolving Credit Facility (“2013 Credit Agreement”). Terms of the 2013 Credit Agreement consist of a five-year, \$350 million revolving credit facility. This 2013 Credit Agreement has a floating interest rate that is currently LIBOR plus 125 basis points. The 2013 Credit Agreement also includes a \$150 million expansion feature. Debt issuance costs associated with the existing credit agreement were not material. With respect to the 2013 Credit Agreement, deferred financing costs are immaterial. The 2013 Credit Agreement contains the following quarterly financial covenants:

Description	Requirement
Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA)	< 3.50 to 1.00
Fixed Charge Coverage Ratio (Consolidated Free Cash Flow/Consolidated Fixed Charges)	> 1.50 to 1.00
Annual Operating Lease Commitment	< \$30.0 million

We are in compliance with all debt covenants as of June 30, 2013. We have issued \$33.0 million in standby letters of credit as of June 30, 2013 for insurance purposes. Issued letters of credit reduce our available credit under the 2013 Credit Agreement. As of June 30, 2013, we have approximately \$317.0 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the \$150 million expansion feature.

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

	June 30, 2013	December 31, 2012
Principal amount of convertible debentures	\$ 186,956	\$ 186,956
Unamortized debt discount	(7,802 )	(12,066 )
Carrying amount of convertible debentures	\$ 179,154	\$ 174,890
Additional paid in capital (net of tax)	\$ 31,310	\$ 31,310

In the second quarter of 2013, the principal amount of the convertible debentures was reclassified to current as the amounts are due in May 2014.

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Cash interest expense	\$ 1,230	\$ 1,350	\$ 2,430	\$ 2,683
Non-cash amortization of debt discount	2,150	2,009	4,264	3,985
Amortization and write-off of debt costs	317	313	1,097	621
Total interest expense	\$ 3,697	\$ 3,672	\$ 7,791	\$ 7,289

The unamortized debt discount is being amortized using the effective interest method over the remaining life of the Notes. The effective rate on the Notes is approximately 6.875% as of June 30, 2013.



## 6. Other Income/(expense) – Net

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Market value gains/(losses) on assets held in deferred compensation trust	\$1,063	\$(948)	\$2,535	\$1,185
Loss on disposal of property and equipment	(1)	(67)	(79)	(148)
Interest income	670	59	973	110
Other - net	(36)	(14)	(27)	(22)
Total other income/(expense) - net	\$1,696	\$(970)	\$3,402	\$1,125

## 7. Stock-Based Compensation Plans

On February 20, 2013, the Compensation/Incentive Committee of the Board of Directors (“CIC”) approved a grant of 28,992 shares of restricted stock to certain key employees. The restricted shares cliff vest four years from the date of issuance. The cumulative compensation expense related to the restricted stock award is \$2.3 million and will be recognized ratably over the 4 year vesting period. We assumed no forfeitures in determining the cumulative compensation expense of the grant.

## 8. Independent Contractor Operations

The Roto-Rooter segment sublicenses with 66 independent contractors to operate certain plumbing repair and drain cleaning businesses in lesser-populated areas of the United States and Canada. We had notes receivable from our independent contractors as of June 30, 2013 totaling \$1.2 million (December 31, 2012 - \$1.3 million). In most cases these loans are fully or partially secured by equipment owned by the contractor. The interest rates on the loans range from 0% to 8% per annum and the remaining terms of the loans range from 2 months to 5 years at June 30, 2013. We recorded the following from our independent contractors (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenues	\$ 8,154	\$ 6,809	\$ 16,364	\$ 13,491
Pretax profits	4,513	3,732	8,771	6,813

## 9. Retirement Plans

All of the Company’s plans that provide retirement and similar benefits are defined contribution plans. These expenses include the impact of market gains and losses on assets held in deferred compensation plans. Expenses for the Company’s pension and profit-sharing plans, excess benefit plans and other similar plans are as follows (in thousands):

2013	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
\$ 3,402	\$ 1,162	\$ 7,698	\$ 5,854	

## 10. Legal and Regulatory Matters

The VITAS segment of the Company's business operates in a heavily-regulated industry. As a result, the Company is subjected to inquiries and investigations by various government agencies, as well as to lawsuits, including qui tam actions. The following sections describe the various ongoing lawsuits and investigations of which the Company is currently aware. It is not possible at this time for us to estimate either the timing or outcome of any of those matters, or whether any potential loss, or range of potential losses, is probable or estimable.

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### Regulatory Matters and Litigation

In February 2010, Chemed and Roto-Rooter were named as defendants in a lawsuit filed in the United States District Court for the Eastern District of New York, entitled Anthony Morangelli, et al., v. Chemed Corp. and Roto-Rooter Services Co., No. 10 CV-00876 (BMC). The named plaintiffs in this lawsuit, who are current and former technicians employed by Roto-Rooter who were paid on a commission basis, asserted against Chemed and Roto-Rooter claims for violation of the Fair Labor Standards Act (“FLSA”) and claims for violations of the labor laws of multiple states. In June 2013 the parties reached an agreement to settle the case for \$14.3 million plus applicable payroll taxes (\$9.0 million after tax), which is subject to Court approval. As such, \$14.8 million is recorded as other operating expense in the quarter ended June 30, 2013 Statement of Income.

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, Bernadette Santos, et al. v. Vitas Healthcare Corporation of California, BC359356. This case alleges failure to pay overtime and failure to provide meal and rest periods to a purported class of California admissions nurses, chaplains and sales representatives. The case seeks payment of penalties, interest and Plaintiffs’ attorney fees. We contest these allegations. In December 2009, the trial court denied Plaintiffs’ motion for class certification. In July 2011, the Court of Appeals affirmed denial of class certification on the travel time, meal and rest period claims, and reversed the trial court’s denial on the off-the-clock and sales representation exemption claims. Plaintiffs filed an appeal of this decision. In September 2012, in response to an order of reconsideration, the Court of Appeals reiterated its previous rulings. In March 2013, the Court granted summary judgment dismissing the sales representatives’ claims as they are exempt employees.

On January 12, 2012, the Greater Pennsylvania Carpenters Pension Fund filed a putative class action lawsuit in the U.S. District Court for the Southern District of Ohio against the Company, Kevin McNamara, David Williams, and Timothy O’Toole. On April 9, 2012, the Court issued orders (a) renaming the suit as In re Chemed Corp. Securities Litigation, Civil Action No. 1:12-cv-28 (S.D. Ohio); (b) appointing the Greater Pennsylvania Carpenters Pension Fund and the Electrical Workers Pension Fund, Local 103, I.B.E.W. as Lead Plaintiffs; and (c) approving Lead Plaintiffs’ selection of Labaton Sucharow LLP and Robbins Geller Rudman & Dowd LLP as Co-Lead Counsel. On June 18, 2012, Lead Plaintiffs filed an amended complaint alleging violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 against all Defendants, and violation of Section 20(a) of the Securities Exchange Act of 1934 against Messrs. McNamara, Williams, and O’Toole. The suit’s allegations concern the VITAS hospice segment of the Company’s business. Lead Plaintiffs seek, on behalf of a putative class of purchasers of Chemed Capital Stock between February 15, 2010 and November 16, 2011, compensatory damages in an unspecified amount and attorneys’ fees and expenses, arising from Defendants’ failure to disclose an alleged fraudulent scheme to enroll ineligible hospice patients and to fraudulently obtain payments from the federal government. Defendants filed motions to dismiss the amended complaint on August 17, 2012. On June 7, 2013, following the filing of U.S. v. VITAS, discussed below, Plaintiffs filed a motion for leave to file a second amended complaint. Defendants oppose this motion. Defendants believe the Plaintiffs’ claims are without merit, and intend to defend vigorously against them.

In April 2005, VITAS received a subpoena from the Office of the Inspector General (“OIG”) of the U.S. Department of Health and Human Services requesting that VITAS produce various categories of documents from 1998 through the date of the subpoena in connection with an investigation into an alleged failure to appropriately bill Medicare and Medicaid for hospice services. The requested categories of documents included patient medical and billing records for 320 past and then current patients from VITAS’s three largest programs; policy and procedure manuals; information concerning patient admissions, certifications, discharges, and lengths of stay; and census information. In the third quarter of 2005, the OIG requested additional information from us. In May 2006, VITAS received another subpoena from OIG seeking certain information concerning employees and their compensation from 1999 through 2004. In 2004, two former VITAS employees filed a related qui tam suit in U.S. District Court for the Southern District of Florida, United States, et al. ex rel. Barys v. Vitas Healthcare Corp., 1:04-cv-21431. The complaint asserted violations of the federal False Claims Act against VITAS and certain of its affiliates, based on the alleged

fraudulent admissions and recertification of ineligible patients. In July 2007, the district court dismissed the suit with prejudice. The U.S. Court of Appeals for the Eleventh Circuit affirmed the dismissal in November 2008. In March 2009, VITAS received a letter from the Department of Justice indicating that its investigation of VITAS's Florida programs is ongoing.

In July 2012, VITAS received an investigative subpoena from the Florida Attorney General seeking documents previously produced in the course of prior OIG government investigations as well as, for the period January 1, 2007 through the date of production, billing records and procedures; information concerning business results, plans, and strategies; documents concerning patient eligibility for hospice care; and certain information concerning employees and their compensation.

In May 2009, VITAS received an administrative subpoena from the U.S. Department of Justice requesting that VITAS deliver to the OIG various categories of documents for its headquarters and Texas programs from January 1, 2003 through the date of the subpoena. The requested categories included policy and procedure manuals and information concerning Medicare and Medicaid billing and the provision of hospice services; patient medical records; information concerning business plans, strategies, and results and VITAS's affiliated entities and referral sources; and certain information concerning employees and their compensation. In August 2009, the OIG selected medical records for 59 past and current patients from a Texas program for review. In September 2010, VITAS received a second administrative subpoena from the Department of Justice seeking electronic documents of 10 current and former employees. In April 2011, the U.S. Attorney provided the Company with a copy of a qui tam complaint filed under seal in the U.S. District Court for the Northern District of Texas, United States, et al. ex rel. Rehfeldt v. Vitas Healthcare Corp., 3:09-cv-0203. In November 2011, the complaint was unsealed. The U.S. Attorney and the Attorney General for the State of Texas filed notices in November 2011 stating that they had decided not to intervene in the case at that time but indicating that they continue to investigate the allegations. The complaint asserts violations of the federal False Claims Act and the Texas Medicaid Fraud Prevention Act based on the alleged admission and re-certification of ineligible patients, conspiracy to admit ineligible patients, and backdating patient revocations. The suit was brought by Michael Rehfeldt, a former general manager of VITAS's San Antonio program, against VITAS, the San Antonio program's former Regional Vice-President, Keith Becker, and former Medical Director, Justo Cisneros, and their respective then-current employers: Wellmed Medical Management, Care Level Management, LLC, Inspiris Hospice, LLC, and Inspiris, Inc. On May 1, 2013 following the plaintiff's motion to dismiss voluntarily and the government's consent, the Court dismissed this complaint without prejudice.

In February 2010, VITAS received a companion civil investigative demand ("CID") from the Texas Attorney General seeking documents from January 1, 2002 through the date of the CID, and interrogatory responses in connection with a related investigation of possible fraudulent submission of Medicaid claims for non-qualifying patients and fraudulent shifting of costs from VITAS to the State of Texas and the United States. The CID requested similar information sought by the Department of Justice's May 2009 administrative subpoena, together with information concerning record-keeping and retention practices, and medical records concerning 117 patients. In September 2010, VITAS received a second CID from the Texas Attorney General seeking additional documents concerning business plans and results, revocation forms for certain patients, and electronic documents of 10 current and former employees.

In June 2011, the U.S. Attorney provided the Company with a partially unsealed qui tam complaint filed under seal in the U.S. District Court for the Western District of Texas, United States, et al. ex rel. Urick v. Vitas HME Solutions, Inc. et al., 5:08-cv-0663 ("Urick"). The U.S. Attorney filed a notice in May 2012 stating that it had decided not to intervene in the case at that time but indicating that it continues to investigate the allegations. In June 2012, the complaint was unsealed. The complaint asserts violations of the federal False Claims Act and the Texas Medicaid Fraud Prevention Act based on allegations of a conspiracy to submit to Medicare and Medicaid false claims involving hospice services for ineligible patients, unnecessary medical supplies, failing to satisfy certain prerequisites for payment, and altering patient records, including backdating patient revocations. The suit was brought by Barbara Urick, a registered nurse in VITAS's San Antonio program, against VITAS, certain of its affiliates, and several former VITAS employees, including physicians Justo Cisneros and Antonio Cavazos and nurses Sally Schwenk, Diane Anest, and Edith Reed. In September 2012, the plaintiff dismissed all claims against the individual defendants. The complaint was served on the VITAS entities on April 12, 2013.

Also in June 2011, the U.S. Attorney provided the Company with a partially unsealed qui tam complaint filed under seal in the U.S. District Court for the Northern District of Illinois, United States, et al. ex rel. Spottiswood v. Chemed Corp., 1:07-cv-4566 ("Spottiswood"). In April 2012, the complaint was unsealed. The U.S. Attorney and Attorney General for the State of Illinois filed notices in April and May 2012, respectively, stating that they had decided not to intervene in the case at that time but indicating that they continue to investigate the allegations. Plaintiff filed an amended complaint in November 2012. The complaint asserts violations of the federal False Claims Act and the

Illinois Whistleblower Reward and Protection Act based on allegations that VITAS fraudulently billed Medicare and Medicaid for providing unwarranted continuous care services. The suit was brought by Laura Spottiswood, a former part-time pool registered nurse at VITAS, against Chemed, VITAS, and a VITAS affiliate. The complaint was served on the defendants on April 12, 2013. On May 29 and June 4, 2013, respectively, the Court granted the government's motion to partially intervene in Spottiswood and in Urick on the allegations that Vitas submitted or caused to be submitted false or fraudulent claims for continuous care and routine home care on behalf of certain ineligible Medicare beneficiaries. The Court also transferred them to the U.S. District Court for the Western District of Missouri under docket Nos. 4:13-cv-505 and 4:13-cv-563, respectively. The government has told Vitas it intends to consolidate these cases with the 2013 Action described below.

In June 2012, VITAS received an administrative subpoena from OIG in connection with an investigation of possible improper claims submitted to the Medicare and Medicaid programs. It seeks production of various categories of documents concerning the provision of hospice services, for headquarters and its Southern California programs, for the period January 1, 2007 through the date of the subpoena. The categories of documents include policy, procedure and training manuals; documents concerning patient eligibility for hospice care, including referrals, admissions, certifications, revocations and census information; documents concerning claims submitted to government programs; certain information concerning employees and their compensation; and documents concerning VITAS's financial performance. In August 2012, the OIG also subpoenaed medical records for 268 patients from three Southern California programs.

In September 2012, VITAS received an administrative subpoena from OIG seeking production of medical records for 102 patients in 10 states who received continuous care between 2004 and 2009. In December 2012, it received a second such administrative subpoena from the OIG seeking medical records for 103 patients who received continuous care between 2009 and 2012.

On May 2, 2013, the government filed a False Claims Act complaint against the Company and certain of its hospice-related subsidiaries in the U.S. District Court for the Western District of Missouri, *United States v. VITAS Hospice Services, LLC, et al.*, 4:13-cv-00449-BCW (the "2013 Action"). The 2013 Action alleges that, since at least 2002, VITAS, and since 2004, the Company, submitted or caused the submission of false claims to the Medicare program by (a) billing Medicare for continuous home care services when the patients were not eligible, the services were not provided, or the medical care was inappropriate, and (b) billing Medicare for patients who were not eligible for the Medicare hospice benefit because they did not have a life expectancy of six months or less if their illnesses ran their normal course. This complaint seeks treble damages, statutory penalties, and the costs of the action, plus interest.

On May 6, 2013, the U.S. District Court for the Western District of Missouri, at the request of the government, unsealed a *qui tam* complaint against VITAS and VITAS Healthcare Corporation of California, *United States ex rel. Charles Gonzales v. Vitas Healthcare Corporation, et al.*, CV 12-0761-R ("Gonzales"). The case was transferred from the Central District of California to the Western District of Missouri under docket No. 4:13-cv-344. The government has filed a notice of election to intervene in the Gonzales complaint. The Gonzales complaint alleges that VITAS' Los Angeles program falsely certified and recertified patients as eligible for the Medicare Hospice Benefit. It alleges violations of the False Claims Act and seeks treble damages, civil penalties, recovery of costs, attorneys' fees and expenses, and pre- and post-judgment interest. In its notice of election to intervene in Gonzales, the government stated that it intends to seek to consolidate the 2013 Action with Gonzales as a related matter. Upon consolidation, the government stated that the complaint in the 2013 Action will supersede the Gonzales complaint.

The Company intends to defend vigorously against the allegations in each of the above lawsuits. The costs to comply with these investigations were \$996,000 and \$2.0 million for the three and six month periods ended June 30, 2013. Regardless of the outcome of any of the preceding matters, responding to the subpoenas and dealing with the various regulatory agencies can adversely affect us through defense costs, diversion of management time, and related publicity.

#### 11. Concentration of Risk

VITAS has pharmacy services agreements ("Agreements") with Omnicare, Inc. and its subsidiaries ("OCR") whereby OCR provides specified pharmacy services for VITAS and its hospice patients in geographical areas served by both VITAS and OCR. The Agreements renew automatically for one-year terms. Either party may cancel the Agreements at the end of any term by giving 90 days prior written notice. VITAS made purchases from OCR of \$9.9 million and \$10.2 million for the three months ended June 30, 2013 and 2012, respectively. VITAS made purchases from OCR of \$19.5 million and \$20.3 million for the six months ended June 30, 2013 and 2012, respectively. For the three and six month periods ending June 30, 2013 and 2012, respectively, purchases from this vendor represent over 90% of all pharmacy services used by VITAS.

#### 12. Cash Overdrafts and Cash Equivalents

Included in accounts payable at June 30, 2013 is cash overdrafts payable of \$613,000 (December 31, 2012 - \$12.2 million).

From time to time throughout the year, we invest excess cash in money market funds with major commercial banks. We closely monitor the creditworthiness of the institutions with which we invest our overnight funds. We had \$77.6 million in cash equivalents as of June 30, 2013. There was \$56.6 million in cash equivalents as of December 31, 2012. The weighted average rate of return for our cash equivalents was 0.09% for June 30, 2013 and 0.2% for December 31, 2012.

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## 13. Financial Instruments

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

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of June 30, 2013 (in thousands):

	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measure Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual fund investments of deferred compensation plans held in trust	\$ 40,583	\$ 40,583	\$ -	\$ -
Long-term debt	179,154	199,041	-	-

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of December 31, 2012 (in thousands):

	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measure Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual fund investments of deferred compensation plans held in trust	\$ 36,089	\$ 36,089	\$ -	\$ -
Long-term debt	174,890	197,874	-	-

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

## 14. Capital Stock Repurchase Plan Transactions

We repurchased the following capital stock for the three and six-months ended June 30, 2013 and 2012:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Shares repurchased	280,701	199,900	280,701	199,900
	\$ 65.72	\$ 55.72	\$ 65.72	\$ 55.72

Weighted average price per  
share

In February 2013, the Board of Directors authorized an additional \$100 million for stock repurchase under Chemed's existing share repurchase program. We currently have \$96.3 million of authorization remaining under this share repurchase plan.

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## 15. Guarantor Subsidiaries

Our 1.875% Notes are fully and unconditionally guaranteed on an unsecured, jointly, and severally liable basis by certain of our 100% owned subsidiaries. The following unaudited, condensed, consolidating financial data presents the composition of the parent company (Chemed), the guarantor subsidiaries and the non-guarantor subsidiaries as of June 30, 2013 and December 31, 2012 for the balance sheet, the three and six months ended June 30, 2013 and June 30, 2012 for the income statement and the six months ended June 30, 2013 and June 30, 2012 for the statement of cash flows (dollars in thousands):

June 30, 2013	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS</b>					
Cash and cash equivalents	\$ 113,927	\$ (9,574 )	\$ 8,694	\$ -	\$ 113,047
Accounts receivable, including intercompany	1,005	466,915	1,076	(392,640 )	76,356
Inventories	-	5,553	603	-	6,156
Current deferred income taxes	-	21,462	267	(2,407 )	19,322
Prepaid income taxes	6,494	327	-	(1,910 )	4,911
Prepaid expenses	1,652	11,676	190	-	13,518
Total current assets	123,078	496,359	10,830	(396,957 )	233,310
Investments of deferred compensation plans	-	-	40,583	-	40,583
Properties and equipment, at cost less accumulated depreciation	10,584	76,963	2,682	-	90,229
Identifiable intangible assets less accumulated amortization	-	57,348	-	-	57,348
Goodwill	-	461,801	4,470	-	466,271
Other assets	18,049	1,757	14,930	(23,599 )	11,137
Investments in subsidiaries	908,756	25,726	-	(934,482 )	-
Total assets	\$ 1,060,467	\$ 1,119,954	\$ 73,495	\$ (1,355,038 )	\$ 898,878
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Accounts payable, including intercompany	\$ 385,095	\$ 37,026	\$ 6,440	\$ (392,640 )	\$ 35,921
Current portion of long-term debt	179,154	-	-	-	179,154
Income taxes	3,776	1,205	1,490	(1,910 )	4,561
Accrued insurance	1,581	41,035	-	-	42,616
Accrued compensation	2,128	39,631	397	-	42,156
Other current liabilities	4,297	31,596	354	(2,407 )	33,840
Total current liabilities	576,031	150,493	8,681	(396,957 )	338,248
Deferred income taxes	-	51,580	-	(23,599 )	27,981
Long-term debt	-	-	-	-	-
Deferred compensation liabilities	-	-	39,660	-	39,660
Other liabilities	3,149	7,639	914	-	11,702
Stockholders' equity	481,287	910,242	24,240	(934,482 )	481,287
Total liabilities and stockholders' equity	\$ 1,060,467	\$ 1,119,954	\$ 73,495	\$ (1,355,038 )	\$ 898,878
December 31, 2012	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated

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## ASSETS

Cash and cash equivalents	\$56,342	\$4,674	\$ 8,515	\$ -	\$ 69,531
Accounts receivable, including intercompany	925	427,341	889	(335,822 )	93,333
Inventories	-	6,505	553	-	7,058
Current deferred income taxes	-	14,633	173	(1,147 )	13,659
Prepaid income taxes	4,043	-	-	(1,400 )	2,643
Prepaid expenses	564	10,656	227	-	11,447
Total current assets	61,874	463,809	10,357	(338,369 )	197,671
Investments of deferred compensation plans	-	-	36,089	-	36,089
Properties and equipment, at cost less accumulated depreciation	10,984	78,236	2,714	-	91,934
Identifiable intangible assets less accumulated amortization	-	57,177	-	-	57,177
Goodwill	-	461,277	4,555	-	465,832
Other assets	19,025	2,005	13,797	(23,904 )	10,923
Investments in subsidiaries	874,692	24,298	-	(898,990 )	-
Total assets	\$966,575	\$1,086,802	\$ 67,512	\$ (1,261,263 )	\$ 859,626

## LIABILITIES AND STOCKHOLDERS'

## EQUITY

Accounts payable, including intercompany	\$325,916	\$53,934	\$ 4,444	\$ (335,822 )	\$ 48,472
Income taxes	1,019	3,816	1,503	(1,400 )	4,938
Accrued insurance	1,339	39,315	-	-	40,654
Accrued compensation	4,119	40,891	447	-	45,457
Other current liabilities	2,786	13,903	1,759	(1,147 )	17,301
Total current liabilities	335,179	151,859	8,153	(338,369 )	156,822
Deferred income taxes	-	51,566	-	(23,904 )	27,662
Long-term debt	174,890	-	-	-	174,890
Deferred compensation liabilities	-	-	35,599	-	