CHEMED CORP
Form 10-Q
July 31, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

X Quarterly Report Under Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended June 30, 2009

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 incorporation or organization) | (IRS Employer Identification No.) |

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

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

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

| Yes | No |
|---|---|
| X | |

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

Yes No

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

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

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

| Yes | No |
|---|---|
| | X |

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

| Class | Amount | Date |
|---|---|---|
| Capital Stock $1 Par Value | 22,495,675 Shares | June 30, 2009 |

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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, 2009 | December 31, 2008 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 16,632 | $ 3,628 |
| Accounts receivable less allowances of $11,757 (2008 - $10,320) | 104,123 | 98,076 |
| Inventories | 8,240 | 7,569 |
| Current deferred income taxes | 15,911 | 15,392 |
| Prepaid income taxes | 5,049 | 1,349 |
| Prepaid expenses and other current assets | 9,031 | 9,919 |
| Total current assets | 158,986 | 135,933 |
| Investments of deferred compensation plans held in trust | 20,348 | 22,628 |
| Properties and equipment, at cost, less accumulated depreciation of $107,342 (2008 - $101,689) | 73,081 | 76,962 |
| Identifiable intangible assets less accumulated amortization of $23,301 (2008 - $21,272) | 59,875 | 61,303 |
| Goodwill | 450,005 | 448,721 |
| Other assets | 13,908 | 14,075 |
| Total Assets | $ 776,203 | $ 759,622 |
| | | |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | $ 49,471 | $ 52,810 |
| Current portion of long-term debt | 5,070 | 10,169 |
| Income taxes | 1,301 | 2,181 |
| Accrued insurance | 35,029 | 35,994 |
| Accrued compensation | 37,936 | 40,741 |
| Other current liabilities | 13,876 | 12,180 |
| Total current liabilities | 142,683 | 154,075 |
| Deferred income taxes | 23,305 | 22,477 |
| Long-term debt | 148,763 | 158,210 |
| Deferred compensation liabilities | 20,157 | 22,417 |
| Other liabilities | 4,391 | 5,612 |
| Total Liabilities | 339,299 | 362,791 |
| | | |
| STOCKHOLDERS' EQUITY | | |
| Capital stock - authorized 80,000,000 shares $1 par; issued 29,614,446 shares (2008 - 29,514,877 shares) | 29,614 | 29,515 |
| Paid-in capital | 320,629 | 313,516 |
| Retained earnings | 371,617 | 337,739 |

| | | | | |
|---|---|---|---|---|
| Treasury stock - 7,118,771 shares (2008 - 7,100,475 shares), at cost | | (286,888) | | (285,977) |
| Deferred compensation payable in Company stock | | 1,932 | | 2,038 |
| Total Stockholders' Equity | | 436,904 | | 396,831 |
| Total Liabilities and Stockholders' Equity | $ | 776,203 | $ | 759,622 |

See accompanying notes to unaudited financial statements.

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

| | Three Months Ended June 30, 2009 | Three Months Ended June 30, 2008 | Six Months Ended June 30, 2009 | Six Months Ended June 30, 2008 |
|---|---|---|---|---|
| Service revenues and sales | $ 295,255 | $ 283,156 | $ 590,193 | $ 568,424 |
| Cost of services provided and goods sold (excluding depreciation) | 207,337 | 201,139 | 414,350 | 406,951 |
| Selling, general and administrative expenses | 49,580 | 46,321 | 95,373 | 89,048 |
| Depreciation | 5,338 | 5,370 | 10,663 | 10,808 |
| Amortization | 1,618 | 1,489 | 3,154 | 2,939 |
| Other operating expense | 3,444 | - | 3,989 | - |
| Total costs and expenses | 267,317 | 254,319 | 527,529 | 509,746 |
| Income from operations | 27,938 | 28,837 | 62,664 | 58,678 |
| Interest expense | (3,142) | (2,964) | (5,986) | (6,073) |
| Other income/(expense)--net | 3,358 | 886 | 3,082 | (303) |
| Income before income taxes | 28,154 | 26,759 | 59,760 | 52,302 |
| Income taxes | (10,904) | (10,488) | (23,171) | (20,171) |
| Net income | $ 17,250 | $ 16,271 | $ 36,589 | $ 32,131 |
| | | | | |
| Earnings Per Share | | | | |
| Net income | $ 0.77 | $ 0.69 | $ 1.63 | $ 1.36 |
| Average number of shares outstanding | 22,417 | 23,486 | 22,406 | 23,681 |
| | | | | |
| Diluted Earnings Per Share | | | | |
| Net income | $ 0.76 | $ 0.68 | $ 1.61 | $ 1.34 |
| Average number of shares outstanding | 22,672 | 23,759 | 22,660 | 24,026 |
| | | | | |
| Cash Dividends Per Share | $ 0.06 | $ 0.06 | $ 0.12 | $ 0.12 |

See accompanying notes to unaudited financial statements.

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2009 | 2008 |
| Cash Flows from Operating Activities | | |
| Net income | $ 36,589 | $ 32,131 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 13,817 | 13,747 |
| Provision for uncollectible accounts receivable | 5,459 | 4,351 |
| Stock option expense | 4,485 | 2,982 |
| Amortization of debt issuance costs | 3,253 | 3,252 |
| Provision for deferred income taxes | 317 | (2,809) |
| Amortization of debt issuance costs | 309 | 309 |
| Changes in operating assets and liabilities, excluding amounts acquired in business combinations: | | |
| Increase in accounts receivable | (11,575) | (4,652) |
| Increase in inventories | (668) | (953) |
| Decrease in prepaid expenses and other current assets | 902 | 1,179 |
| Decrease in accounts payable and other current liabilities | (4,005) | (2,248) |
| Decrease in income taxes | (4,267) | (4,903) |
| Decrease/(increase) in other assets | 2,264 | (1,906) |
| Increase/(decrease) in other liabilities | (3,481) | 1,910 |
| Excess tax benefit on share-based compensation | (313) | (825) |
| Other sources | 34 | 206 |
| Net cash provided by operating activities | 43,120 | 41,771 |
| Cash Flows from Investing Activities | | |
| Capital expenditures | (8,136) | (8,715) |
| Business combinations, net of cash acquired | (1,859) | (577) |
| Proceeds from sales of property and equipment | 1,496 | 71 |
| Net proceeds/(uses) from the disposals of discontinued operations | (219) | 9,439 |
| Other uses | (256) | (306) |
| Net cash used by investing activities | (8,974) | (88) |
| Cash Flows from Financing Activities | | |
| Repayment of long-term debt | (9,599) | (5,095) |
| Net increase/(decrease) in revolving line of credit | (8,200) | 8,300 |
| Dividends paid | (2,711) | (2,900) |
| Decrease in cash overdrafts payable | (781) | (655) |
| Purchases of treasury stock | (526) | (45,791) |
| Excess tax benefit on share-based compensation | 313 | 825 |
| Other sources | 362 | 170 |
| Net cash used by financing activities | (21,142) | (45,146) |
| Increase/(Decrease) in Cash and Cash Equivalents | 13,004 | (3,463) |
| Cash and cash equivalents at beginning of year | 3,628 | 4,988 |

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents at end of period | $ | 16,632 | $ | 1,525 |

See accompanying notes to unaudited financial statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
Notes to Unaudited Financial Statements

1. Basis of Presentation

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

We have prepared the accompanying unaudited consolidated financial statements of Chemed in accordance with Rule 10-01 of SEC Regulation S-X. Consequently, we have omitted certain disclosures required under generally accepted accounting principles in the United States ("GAAP") for complete financial statements. The December 31, 2008 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, 2008. Certain 2008 amounts have been restated to conform with current period presentation related to adoption of new accounting guidance for our convertible debt, as described in Note 5.

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 caps, as described below.

As of June 30, 2009, VITAS has approximately $13.8 million in unbilled revenue (December 31, 2008 - $13.9 million). The unbilled revenue at VITAS relates to hospice programs currently undergoing focused medical reviews ("FMR"). During FMR, surveyors working on behalf of the U.S. Federal government review certain patient files for compliance with Medicare regulations. During the time the patient file is under review, we are unable to bill for care provided to those patients. We make appropriate provisions to reduce our accounts receivable balance for potential denials of patient service revenue due to FMR activity.

The U.S. government revises hospice reimbursement rates on an annual basis using the Hospice Wage Index (HWI) and the Budget Neutrality Adjustment Factor (BNAF). The HWI is used to adjust reimbursement rates to reflect local differences in wages. The BNAF is an estimated inflation factor applied to the HWI. In August 2008, the U.S. government announced a 25% reduction in the BNAF for its fiscal 2009 (October 2008 through September 2009) pursuant to a three year phase-out of the BNAF. The February 2009 American Recovery and Reinvestment Act mandated a one year delay in the BNAF phase-out. As a result, included in the six months ended June 30, 2009 results, is $1.95 million of revenue for the retroactive price increase related to services provided by VITAS in the fourth quarter of 2008. Revenue for service provided in fiscal 2009 includes a reimbursement rate with the full BNAF increase.

We actively monitor each of our hospice programs, by provider number, as to their specific admission, discharge rate and median length of stay data in an attempt to determine whether they are likely to exceed the annual per-beneficiary Medicare cap ("Medicare cap"). Should we determine that revenues for a program are likely to exceed the Medicare cap based on projected trends, we attempt to institute corrective action to influence the patient mix or to increase patient admissions. However, should we project our corrective action will not prevent that program from exceeding its Medicare cap, we estimate the amount of revenue recognized during the period that will require repayment to the Federal government under the Medicare cap and record the amount as a reduction to patient revenue. The Medicare cap measurement period is from September 29 through September 28 of the following year for admissions and from November 1 through October 31 of the following year for revenue. As a result of improved admission trends, we reversed our estimated liability of $505,000 for one provider number during the three months ended June 30, 2009. This relates to one program's projected liability that was recorded during the fourth quarter of 2008 and the first quarter of 2009. No revenue reduction for Medicare cap liability was recorded for the three or six-month periods ended June 30, 2008.

3. Segments

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

| | Three months ended June 30, 2009 | Three months ended June 30, 2008 | Six months ended June 30, 2009 | Six months ended June 30, 2008 |
|---|---|---|---|---|
| Service Revenues and Sales | | | | |
| VITAS | $ 211,303 | $ 199,048 | $ 419,720 | $ 397,633 |
| Roto-Rooter | 83,952 | 84,108 | 170,473 | 170,791 |
| Total | $ 295,255 | $ 283,156 | $ 590,193 | $ 568,424 |
| | | | | |
| After-tax Earnings | | | | |
| VITAS | $ 17,244 | $ 14,321 | $ 34,527 | $ 27,619 |
| Roto-Rooter | 8,851 | 8,393 | 17,127 | 17,488 |
| Total | 26,095 | 22,714 | 51,654 | 45,107 |
| Corporate | (8,845) | (6,443) | (15,065) | (12,976) |
| Net income | $ 17,250 | $ 16,271 | $ 36,589 | $ 32,131 |

4. Earnings per Share

Earnings per share are computed using the weighted average number of shares of capital stock outstanding. Earnings and diluted earnings per share for 2009 and 2008 are computed as follows (in thousands, except per share data):

| For the Three Months Ended June 30, | Net Income | Shares | Earnings per Share |
|---|---|---|---|
| 2009 | | | |
| Earnings | $ 17,250 | 22,417 | $ 0.77 |
| Dilutive stock options | - | 214 | |
| Nonvested stock awards | - | 41 | |
| Diluted earnings | $ 17,250 | 22,672 | $ 0.76 |
| | | | |
| 2008 | | | |
| Earnings | $ 16,271 | 23,486 | $ 0.69 |
| Dilutive stock options | - | 247 | |
| Nonvested stock awards | - | 26 | |
| Diluted earnings | $ 16,271 | 23,759 | $ 0.68 |

| For the Six Months Ended June 30, | Net Income | Shares | Earnings per Share |
|---|---|---|---|
| 2009 | | | |
| Earnings | $ 36,589 | 22,406 | $ 1.63 |
| Dilutive stock options | - | 216 | |
| Nonvested stock awards | - | 38 | |
| Diluted earnings | $ 36,589 | 22,660 | $ 1.61 |

| | | | | | |
|---|---|---|---|---|---|
| 2008 | | | | | |
| Earnings | $ | 32,131 | 23,681 | $ | 1.36 |
| Dilutive stock options | | - | 315 | | |
| Nonvested stock awards | | - | 30 | | |
| Diluted earnings | $ | 32,131 | 24,026 | $ | 1.34 |

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For both the three and six-month periods ended June 30, 2009 1,828,017 stock options were excluded from the computation of diluted earnings per share as their exercise prices were greater than the average market price for most of the quarter. For the three and six-month periods ended June 30, 2008 1,084,267 and 832,267 stock options were excluded, respectively, from the computation of diluted earnings per share.

Diluted earnings per share may be impacted in future periods as the result of the issuance of our 1.875% Senior Convertible Notes (the "Notes") and related purchased call options and sold warrants. Under EITF 04-8 "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share" and EITF 90-19 "Convertible Bonds with 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 conversion price of $80.73. We would then include in our diluted earnings per share calculation those shares issuable using the treasury stock method. The amount of shares issuable is based upon the amount by which the average stock price for the quarter exceeds the conversion price. The purchased call option does not impact the calculation of diluted earnings per share as it is always anti-dilutive. The sold warrants become dilutive when our average stock price for a quarter exceeds the strike price of the warrant.

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

| Share Price | Shares Underlying 1.875% Convertible Notes | Warrant Shares | Total Treasury Method Incremental Shares (a) | Shares Due to the Company under Notes Hedges | Incremental Shares Issued/ (Received) by the Company upon Conversion (b) |
|---|---|---|---|---|---|
| $ 80.73 | - | - | - | - | - |
| $ 90.73 | 255,243 | - | 255,243 | (273,061) | (17,818) |
| $ 100.73 | 459,807 | - | 459,807 | (491,905) | (32,098) |
| $ 110.73 | 627,423 | 118,359 | 745,782 | (671,222) | 74,560 |
| $ 120.73 | 767,272 | 313,764 | 1,081,036 | (820,833) | 260,203 |
| $ 130.73 | 885,726 | 479,274 | 1,365,000 | (947,556) | 417,444 |

(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 Notes, assuming concurrent settlement of the note hedges and warrants.

5. Long-Term Debt

We are in compliance with all debt covenants as of June 30, 2009. We have issued $27.8 million in standby letters of credit as of June 30, 2009 for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of June 30, 2009, we have approximately $147.2 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the expansion feature. During June 2009, we paid $7.0 million on our term loan of which $4.5 million was a principal prepayment.

In May 2008, the FASB issued Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments that may be Settled in Cash Upon Conversion (Including Partial Cash Settlement)." This new guidance requires all convertible debentures classified as Instruments B or C under EITF 90-19 to separately account for the debt and equity pieces of the instrument. At inception of the convertible instrument, cash flows related to the convertible instrument are to be discounted using a market rate of interest. We adopted the new standard on January 1, 2009. The FSP was applied retrospectively. Upon adoption, the Notes had a discount of approximately $54.9 million. Retained earnings as of January 1, 2008 decreased $2.3 million as a result of the cumulative effect of adoption.

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

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| Principal amount of convertible debentures | $ 186,956 | $ 186,956 |
| Unamortized debt discount | (38,193) | (41,446) |
| Carrying amount of convertible debentures | $ 148,763 | $ 145,510 |
| Additional paid in capital (net of tax) | $ 31,310 | $ 31,310 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Cash interest expense | $ 1,346 | $ 1,168 | $ 2,424 | $ 2,510 |
| Non-cash amortization of debt discount | 1,640 | 1,640 | 3,253 | 3,252 |
| Amortization of debt costs | 156 | 156 | 309 | 311 |
| Total interest expense | $ 3,142 | $ 2,964 | $ 5,986 | $ 6,073 |

The unamortized debt discount will be amortized using the effective interest method over the remaining life of the Notes. The effective rate on the Notes after adoption of the standard is approximately 6.875%. The gain on extinguishment of debt recognized in 2008 upon our repurchase of a portion of the Notes decreased by approximately $802,000 upon adoption, due to a portion of the extinguishment being attributed to the equity component of our Notes.

6. Other Operating Expenses

For the three and six-month periods ended June 30, 2009 we recorded pretax expenses of $3.4 million and $4.0 million, respectively, related to the costs of a contested proxy solicitation.

7. Other Income -- Net

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Interest income | $ 207 | $ 106 | $ 289 | $ 443 |
| (Loss)/gain on trading investments of employee benefit trust | 3,199 | 841 | 2,796 | (681) |
| Loss on disposal of property and equipment | (78) | (84) | (54) | (113) |
| Other - net | 30 | 23 | 51 | 48 |
| Total other income | $ 3,358 | $ 886 | $ 3,082 | $ (303) |

8. Other Current Liabilities

Other current liabilities as of June 30, 2009 and December 31, 2008 consist of the following (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Accrued legal settlements | $ 431 | $ 410 |
| Accrued divestiture expenses | 852 | 837 |
| Accrued Medicare cap estimate | 500 | 735 |
| Other | 12,093 | 10,198 |
| Total other current liabilities | $ 13,876 | $ 12,180 |

9. Stock-Based Compensation Plans

On February 19, 2009, the Compensation/Incentive Committee of the Board of Directors (“CIC”) approved a grant of 53,199 shares of restricted stock to certain key employees. The restricted shares cliff vest four years from the date of issuance. The cumulative compensation expense related to the restricted stock award is $2.3 million and will be recognized ratably over the four-year vesting period. We assumed no forfeitures in determining the cumulative compensation expense of the grant.

On February 19, 2009, the CIC approved a grant of 508,600 stock options to certain employees. The stock options vest ratably over three years from the date of issuance. The cumulative compensation expense related to the stock option grant is $7.1 million and will be recognized over the three-year vesting period. We used the Black-Scholes option valuation method to determine the cumulative compensation expense of the grant.

On May 29, 2009, the Compensation/Incentive Committee (“CIC”) approved a new stock-price target portion of the Company’s Executive Long-Term Incentive Plan (“LTIP”), which covers our officers and key employees. The new stock price hurdles are as follows:

| Stock Price Hurdle | Shares to be Issued |
|---|---|
| $ 54.00 | 22,500 |
| $ 58.00 | 33,750 |
| $ 62.00 | 33,750 |
| Total | 90,000 |

The stock price hurdles must be achieved during 30 trading days out of any 60 trading day period between May 29, 2009 and February 28, 2012.

10. Loans Receivable from Independent Contractors

The Roto-Rooter segment sublicenses with approximately sixty-five 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, 2009 totaling $1.6 million (December 31, 2008 -$1.6 million). In most cases these loans are fully or partially secured by equipment owned by the contractor. The interest rates on the loans range from zero to 8% per annum and the remaining terms of the loans range from two months to 5 years at June 30, 2009. During the three months ended June 30, 2009, we recorded revenues of $5.4 million (2008 - $5.6 million) and pretax profits of $2.4 million (2008 - $2.4 million) from our independent contractors. During the six months ended June 30, 2009, we recorded revenues of $10.7 million (2008 - $11.2 million) and pretax profits of $4.7 million (2008 - $5.1 million) from our independent contractors

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

11. Pension and Retirement Plans

All of the Company's plans that provide retirement and similar benefits are defined contribution plans. Expenses for the Company's pension and profit-sharing plans, excess benefit plans and other similar plans were $5.6 million and $3.8 million for the three months ended June 30, 2009 and 2008, respectively. Expenses for the Company's pension and profit-sharing plans, excess benefit plans and other similar plans were $7.0 million and $5.5 million for the six months ended June 30, 2009 and 2008, respectively.

12. Litigation

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 alleges failure to pay overtime and failure to provide meal and rest periods to a purported class of California admissions nurses, chaplains and sales representatives. The case seeks payment of penalties, interest and Plaintiffs' attorney fees. VITAS contests these allegations. The lawsuit is in its early stages and we are unable to estimate our potential liability, if any, with respect to these allegations.

Regardless of outcome, defense of litigation adversely affects us through defense costs, diversion of our time and related publicity. In the normal course of business, we are a party to various claims and legal proceedings. We record a reserve for these matters when an adverse outcome is probable and the amount of the potential liability is reasonably estimable.

13. Regulatory Matters

In April 2005, the Office of Inspector General ("OIG") for the Department of Health and Human Services served VITAS with civil subpoenas relating to VITAS' alleged failure to appropriately bill Medicare and Medicaid for hospice services. As part of this investigation, the OIG selected medical records for 320 past and current patients from VITAS' three largest programs for review. It also sought policies and procedures dating back to 1998 covering admissions, certifications, recertifications and discharges. During the third quarter of 2005 and again in May 2006, the OIG requested additional information from us. The Court dismissed a related qui tam complaint filed in U.S. District Court for the Southern District of Florida with prejudice in July 2007. The plaintiffs appealed this dismissal, which the Court of Appeals affirmed. The government continues to investigate the complaint's allegations. In March 2009, we received a letter from the government reiterating the basis of their investigation.

In May of 2009, VITAS received an administrative subpoena from the U.S. Department of Justice requesting VITAS deliver to the OIG documents, patient records, and policy and procedure manuals for headquarters and its Texas programs concerning hospice services provided for the period January 1, 2003 to the date of the letter. Based on the early stage of the investigation and the limited information we have at this time, we cannot predict the outcome of this investigation. We believe that we are in material compliance with Medicare and Medicaid rules and regulations applicable to hospice providers.

We are unable to predict the outcome of these matters or the impact, if any, that the investigation may have on our business, results of operations, liquidity or capital resources. Regardless of outcome, responding to the subpoenas can adversely affect us through defense costs, diversion of our time and related publicity.

14. Related Party Agreement

VITAS has two 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 written notice at least 90 days prior to the end of said term. VITAS made purchases from OCR of $8.2 million and $8.3 million for the three months ended June 30, 2009 and 2008, respectively. VITAS made purchases of $16.1 million and $16.5 million for the six months ended June 30, 2009 and 2008, respectively. VITAS has accounts payable to OCR of $363,000 at June 30, 2009.

Mr. Joel F. Gemunder, President and Chief Executive Officer of OCR and Ms. Andrea Lindell 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.

15. Cash Overdrafts Payable

Included in accounts payable at June 30, 2009 is cash overdrafts payable of $8.0 million (December 31, 2008 - $8.8 million).

16. Financial Instruments

On January 1, 2008, we partially adopted the provisions of Statement No. 157, "Fair Value Measurements" ("SFAS 157"). This statement defines a hierarchy which prioritizes the inputs in fair value measurements. Level 1 measurements are measurements using quoted prices in active markets for identical assets or liabilities. Level 2 measurements use significant other observable inputs. Level 3 measurements are measurements using significant unobservable inputs which require a company to develop its own assumptions. In recording the fair value of assets and liabilities, companies must use the most reliable measurement available. There was no impact on our financial position or results of operations upon partial adoption of SFAS 157.

On January 1, 2009, the deferral period granted by FASB Staff Position 157-2 relative to our goodwill and indefinite lived intangible assets expired. There was no impact on our financial position or results of operations as a result of the expiration of the deferral.

The following shows the carrying value, fair value and SFAS 157 hierarchy for our financial instruments as of June 30, 2009 (in thousands):

| | | Fair Value Measure | | |
|---|---|---|---|---|
| | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Mutual fund investments of deferred compensation plans held in trust | $ 20,348 | $ 20,348 | $ - | $ - |

| | | | | |
|---|---|---|---|---|
| Long-term debt | 153,833 | 143,487 | - | - |

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.

17. Subsequent Events

In May 2009, the FASB issued Statement of Financial Accounting Standard No. 165 "Subsequent Events" ("SFAS 165"), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. It requires the disclosure of the date through which subsequent events have been evaluated as well as the basis for that date. This statement is effective prospectively for interim or annual financial periods ending after June 15, 2009. We have evaluated all subsequent events through July 31, 2009, the date of this filing, and determined there are no material recognized or unrecognized subsequent events.

18. Recent Accounting Statements

In May 2008, the FASB issued Statement of Financial Accounting Standard No. 162 “The Hierarchy of Generally Accepted Accounting Principles” (“SFAS 162”). The purpose of this standard is to provide a consistent framework for determining what accounting principles should be used when preparing U.S. GAAP financial statements. SFAS 162 categorizes accounting pronouncements in a descending order of authority. In the instance of potentially conflicting accounting principles, the standard in the highest category must be used. This standard will be replaced when the Statement of Financial Accounting Standard No. 168 “The FASB Accounting Standards Codification” ™ (“SFAS 168”) becomes effective. We believe that SFAS 162 has no impact on our existing accounting methods.

In June 2009, the FASB issued Statement of Financial Accounting Standard No. 167 “Amendments to FASB Interpretation No. 46(R)” (“SFAS 167”), which makes significant changes to the model for determining who should consolidate an entity and also addresses how often this assessment should be performed. The determination of who should consolidate a variable interest entity will be based on both quantitative and qualitative factors relating to control, as well as risks and benefits of ownership. This statement is effective in 2010 for calendar-year companies and is to be adopted through a cumulative-effect adjustment. We are currently evaluating the impact of SFAS 167 on our existing accounting methods.

In June 2009, the FASB issued Statement of Financial Accounting Standard No. 168 “The FASB Accounting Standards Codification” ™ (“SFAS 168”). SFAS 168 establishes the Codification as the single source of authoritative nongovernmental U.S. GAAP. The Codification is not intended to change GAAP, but it represents a significant change in the way issues are researched and U.S. GAAP is referenced in financial statements and accounting policies. SFAS 168 will be effective for interim or annual financial periods ending after September 15, 2009. We believe that SFAS 168 will have no impact on our existing accounting methods. However, upon adoption all references in our financial statements to authoritative U.S. GAAP will be changed to the Codification and not the historical U.S. GAAP reference.

19. 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, 2009 and December 31, 2008 for the balance sheet, the three and six months ended June 30, 2009 for the income statement and the six months ended June 30, 2009 for the statement of cash flows (dollars in thousands):

| As of June 30, 2009 | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash and cash equivalents | $ 13,187 | $ 130 | $ 3,315 | $ - | $ 16,632 |
| Accounts receivable, less allowances | 677 | 102,764 | 682 | - | 104,123 |
| Intercompany receivables | - | 66,213 | - | (66,213) | - |
| Inventories | - | 7,493 | 747 | - | 8,240 |
| Prepaid income taxes | 1,872 | 414 | 2,763 | - | 5,049 |
| Current deferred income taxes | (1,298) | 17,142 | 67 | - | 15,911 |
| Prepaid expenses and other current assets | 1,221 | 7,722 | 88 | - | 9,031 |
| Total current assets | 15,659 | 201,878 | 7,662 | (66,213) | 158,986 |
| Investments of deferred compensation plans held in trust | - | - | 20,348 | - | 20,348 |
| Properties and equipment, at cost, less accumulated depreciation | 10,195 | 60,862 | 2,024 | - | 73,081 |
| Identifiable intangible assets less accumulated amortization | - | 59,875 | - | - | 59,875 |
| Goodwill | - | 445,588 | 4,417 | - | 450,005 |
| Other assets | 11,029 | 2,555 | 324 | - | 13,908 |
| Investments in subsidiaries | 610,262 | 14,225 | - | (624,487) | - |
| Total assets | $ 647,145 | $ 784,983 | $ 34,775 | $ (690,700) | $ 776,203 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Accounts payable | $ 592 | $ 48,627 | $ 252 | $ - | $ 49,471 |
| Intercompany payables | 60,424 | - | 5,789 | (66,213) | - |
| Current portion of long-term debt | 5,000 | 70 | - | - | 5,070 |
| Income taxes | (4,159) | 5,328 | 132 | - | 1,301 |
| Accrued insurance | 471 | 34,558 | - | - | 35,029 |
| Accrued salaries and wages | 1,875 | 35,565 | 496 | - | 37,936 |
| Other current liabilities | 2,841 | 10,755 | 280 | - | 13,876 |
| Total current liabilities | 67,044 | 134,903 | 6,949 | (66,213) | 142,683 |
| Deferred income taxes | (8,474) | 38,073 | (6,294) | - | 23,305 |
| Long-term debt | 148,763 | - | - | - | 148,763 |
| Deferred compensation liabilities | - | - | 20,157 | - | 20,157 |
| Other liabilities | 2,908 | 1,483 | - | - | 4,391 |

| | | Parent | | Guarantor Subsidiaries | | Non-Guarantor Subsidiaries | | Consolidating Adjustments | | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| Stockholders' equity | | 436,904 | | 610,524 | | 13,963 | | (624,487) | | 436,904 |
| Total liabilities and stockholders' equity | $ | 647,145 | $ | 784,983 | $ | 34,775 | $ | (690,700) | $ | 776,203 |

| as of December 31, 2008 | | Parent | | Guarantor Subsidiaries | | Non-Guarantor Subsidiaries | | Consolidating Adjustments | | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | | | | |
| Cash and cash equivalents | $ | 65 | $ | 202 | $ | 3,361 | $ | - | $ | 3,628 |
| Accounts receivable, less allowances | | 1,261 | | 96,112 | | 703 | | - | | 98,076 |
| Intercompany receivables | | - | | 37,105 | | - | | (37,105) | | - |
| Inventories | | - | | 7,021 | | 548 | | - | | 7,569 |
| Prepaid income taxes | | 1,537 | | (1,097) | | 909 | | - | | 1,349 |
| Current deferred income taxes | | (229) | | 15,511 | | 110 | | - | | 15,392 |
| Prepaid expenses and other current assets | | 759 | | 9,079 | | 81 | | - | | 9,919 |
| Total current assets | | 3,393 | | 163,933 | | 5,712 | | (37,105) | | 135,933 |
| Investments of deferred compensation plans held in trust | | - | | - | | 22,628 | | - | | 22,628 |
| Properties and equipment, at cost, less accumulated depreciation | | 11,665 | | 63,179 | | 2,118 | | - | | 76,962 |
| Identifiable intangible assets less accumulated amortization | | - | | 61,303 | | - | | - | | 61,303 |
| Goodwill | | - | | 444,433 | | 4,288 | | - | | 448,721 |
| Other assets | | 11,312 | | 2,455 | | 308 | | - | | 14,075 |
| Investments in subsidiaries | | 568,038 | | 11,196 | | - | | (579,234) | | - |
| Total assets | $ | 594,408 | $ | 746,499 | $ | 35,054 | $ | (616,339) | $ | 759,622 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | | | | | |
| Accounts payable | $ | (1,688) | $ | 54,175 | $ | 323 | $ | - | $ | 52,810 |
| Intercompany payables | | 29,513 | | - | | 7,592 | | (37,105) | | - |
| Current portion of long-term debt | | 10,000 | | 169 | | - | | - | | 10,169 |
| Income taxes | | (1,940) | | 3,909 | | 212 | | - | | 2,181 |
| Accrued insurance | | 1,425 | | 34,569 | | - | | - | | 35,994 |
| Accrued salaries and wages | | 3,817 | | 36,523 | | 401 | | - | | 40,741 |
| Other current liabilities | | 2,022 | | 8,979 | | 1,179 | | - | | 12,180 |
| Total current liabilities | | 43,149 | | 138,324 | | 9,707 | | (37,105) | | 154,075 |
| Deferred income taxes | | (7,801) | | 38,310 | | (8,032) | | - | | 22,477 |
| Long-term debt | | 158,210 | | - | | - | | - | | 158,210 |
| Deferred compensation liabilities | | - | | - | | 22,417 | | - | | 22,417 |
| Other liabilities | | 4,019 | | 1,593 | | - | | - | | 5,612 |
| Stockholders' equity | | 396,831 | | 568,272 | | 10,962 | | (579,234) | | 396,831 |
| Total liabilities and stockholders' equity | $ | 594,408 | $ | 746,499 | $ | 35,054 | $ | (616,339) | $ | 759,622 |

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| For the three months ended June 30, 2009 | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Continuing Operations | | | | | |
| Net sales and service revenues | $ - | $ 289,382 | $ 5,873 | $ - | $ 295,255 |
| Cost of services provided and goods sold | - | 204,416 | 2,921 | - | 207,337 |
| Selling, general and administrative expenses | 5,502 | 39,867 | 4,211 | - | 49,580 |
| Depreciation | 148 | 5,016 | 174 | - | 5,338 |
| Amortization | 596 | 1,022 | - | - | 1,618 |
| Other operating expense | 3,444 | - | - | - | 3,444 |
| Total costs and expenses | 9,690 | 250,321 | 7,306 | - | 267,317 |
| Income/ (loss) from operations | (9,690) | 39,061 | (1,433) | - | 27,938 |
| Interest expense | (2,757) | (385) | - | - | (3,142) |
| Other income - net | 106 | 38 | 3,214 | - | 3,358 |
| Income/ (loss) before income taxes | (12,341) | 38,714 | 1,781 | - | 28,154 |
| Income tax (provision)/ benefit | 4,148 | (14,766) | (286) | - | (10,904) |
| Equity in net income of subsidiaries | 25,443 | 1,295 | - | (26,738) | - |
| Net income | $ 17,250 | $ 25,243 | $ 1,495 | $ (26,738) | $ 17,250 |

| For the three months ended June 30, 2008 | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Continuing Operations | | | | | |
| Net sales and service revenues | $ - | $ 276,973 | $ 6,183 | $ - | $ 283,156 |
| Cost of services provided and goods sold | - | 198,098 | 3,041 | - | 201,139 |
| Selling, general and administrative expenses | 4,479 | 39,742 | 2,100 | - | 46,321 |
| Depreciation | 118 | 5,084 | 168 | - | 5,370 |
| Amortization | 481 | 1,008 | - | - | 1,489 |
| Total costs and expenses | 5,078 | 243,932 | 5,309 | - | 254,319 |
| Income/ (loss) from operations | (5,078) | 33,041 | 874 | - | 28,837 |
| Interest expense | (2,855) | (109) | - | - | (2,964) |
| Other (expense)/income - net | 1,506 | (1,489) | 869 | - | 886 |
| Income/ (loss) before income taxes | (6,427) | 31,443 | 1,743 | - | 26,759 |
| Income tax (provision)/ benefit | 1,865 | (11,980) | (373) | - | (10,488) |
| Equity in net income of subsidiaries | 20,833 | 1,302 | - | (22,135) | - |
| Net income | $ 16,271 | $ 20,765 | $ 1,370 | $ (22,135) | $ 16,271 |

| For the six months ended June 30, 2009 | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Continuing Operations | | | | | |
| Net sales and service revenues | $ - | $ 578,521 | $ 11,672 | $ - | $ 590,193 |

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Cost of services provided and goods sold | - | 408,445 | 5,905 | - | 414,350 |
| Selling, general and administrative expenses | 10,731 | 80,515 | 4,127 | - | 95,373 |
| Depreciation | 299 | 10,023 | 341 | - | 10,663 |
| Amortization | 1,127 | 2,027 | - | - | 3,154 |
| Other operating expense | 3,989 | - | - | - | 3,989 |
| Total costs and expenses | 16,146 | 501,010 | 10,373 | - | 527,529 |
| Income/ (loss) from operations | (16,146) | 77,511 | 1,299 | - | 62,664 |
| Interest expense | (5,527) | (465) | 6 | - | (5,986) |
| Other (expense)/income - net | 490 | (239) | 2,831 | - | 3,082 |
| Income/ (loss) before income taxes | (21,183) | 76,807 | 4,136 | - | 59,760 |
| Income tax (provision)/ benefit | 7,418 | (29,216) | (1,373) | - | (23,171) |
| Equity in net income of subsidiaries | 50,354 | 2,900 | - | (53,254) | - |
| Net income | $ 36,589 | $ 50,491 | $ 2,763 | $ (53,254) | $ 36,589 |

| For the six months ended June 30, 2008 | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Continuing Operations | | | | | |
| Net sales and service revenues | $ - | $ 555,835 | $ 12,589 | $ - | $ 568,424 |
| Cost of services provided and goods sold | - | 400,802 | 6,149 | - | 406,951 |
| Selling, general and administrative expenses | 8,529 | 78,530 | 1,989 | - | 89,048 |
| Depreciation | 242 | 10,233 | 333 | - | 10,808 |
| Amortization | 922 | 2,017 | - | - | 2,939 |
| Total costs and expenses | 9,693 | 491,582 | 8,471 | - | 509,746 |
| Income/ (loss) from operations | (9,693) | 64,253 | 4,118 | - | 58,678 |
| Interest expense | (5,830) | (242) | (1) | - | (6,073) |
| Other (expense)/income - net | 2,874 | (2,545) | (632) | - | (303) |
| Income/ (loss) before income taxes | (12,649) | 61,466 | 3,485 | - | 52,302 |
| Income tax (provision)/ benefit | 4,475 | (22,959) | (1,687) | - | (20,171) |
| Equity in net income of subsidiaries | 40,305 | 2,001 | - | (42,306) | - |
| Net income | $ 32,131 | $ 40,508 | $ 1,798 | $ (42,306) | $ 32,131 |

| For the six months ended June 30, 2009 | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidated |
|---|---|---|---|---|
| Cash Flow from Operating Activities: | | | | |
| Net cash (used)/provided by operating activities | $ (7,802) | $ 49,192 | $ 1,730 | $ 43,120 |
| Cash Flow from Investing Activities: | | | | |
| Capital expenditures | (13) | (7,912) | (211) | (8,136) |
| Business combinations, net of cash acquired | - | (1,859) | - | (1,859) |
| Net payments on sale of discontinued operations | (219) | - | - | (219) |
| Proceeds from sale of property and equipment | 1,280 | 216 | - | 1,496 |
| Other uses - net | (146) | (110) | - | (256) |
| Net cash provided/ (used) by investing activities | 902 | (9,665) | (211) | (8,974) |
| Cash Flow from Financing Activities: | | | | |
| Change in cash overdrafts payable | 1,242 | (2,023) | - | (781) |
| Change in intercompany accounts | 39,429 | (37,625) | (1,804) | - |
| Dividends paid to shareholders | (2,711) | - | - | (2,711) |
| Purchases of treasury stock | (526) | - | - | (526) |
| Realized excess tax benefit on share based compensation | 313 | - | - | 313 |
| Net decrease in revolving credit facility | (8,200) | - | - | (8,200) |
| Repayment of long-term debt | (9,500) | (99) | - | (9,599) |
| Other sources and uses - net | (25) | 148 | 239 | 362 |
| Net cash provided/(used) by financing activities | 20,022 | (39,599) | (1,565) | (21,142) |
| Net increase/(decrease) in cash and cash equivalents | 13,122 | (72) | (46) | 13,004 |
| Cash and cash equivalents at beginning of year | 65 | 202 | 3,361 | 3,628 |
| Cash and cash equivalents at end of period | $ 13,187 | $ 130 | $ 3,315 | $ 16,632 |

| For the six months ended June 30, 2008 | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidated |
|---|---|---|---|---|
| Cash Flow from Operating Activities: | | | | |
| Net cash (used)/provided by operating activities | $ (3,607) | $ 45,529 | $ (151) | $ 41,771 |
| Cash Flow from Investing Activities: | | | | |
| Capital expenditures | (62) | (8,042) | (611) | (8,715) |
| Business combinations, net of cash acquired | (1) | (576) | - | (577) |
| Net proceeds from sale of discontinued operations | 9,439 | - | - | 9,439 |
| Proceeds from sale of property and equipment | 10 | 43 | 18 | 71 |
| Other sources and uses - net | (323) | 17 | - | (306) |
| Net cash provided/ (used) by investing activities | 9,063 | (8,558) | (593) | (88) |
| Cash Flow from Financing Activities: | | | | |
| Change in cash overdrafts payable | 826 | (1,481) | - | (655) |
| Change in intercompany accounts | 34,654 | (35,241) | 587 | - |
| Dividends paid to shareholders | (2,900) | - | - | (2,900) |
| Purchases of treasury stock | (45,791) | - | - | (45,791) |
| | 825 | - | - | 825 |

| | | | | |
|---|---|---|---|---|
| Realized excess tax benefit on share based compensation | | | | |
| Net increase in revolving credit facility | 8,300 | - | - | 8,300 |
| Repayment of long-term debt | (5,000) | (95) | - | (5,095) |
| Other sources and uses - net | 63 | 147 | (40) | 170 |
| Net cash provided/(used) by financing activities | (9,023) | (36,670) | 547 | (45,146) |
| Net increase/(decrease) in cash and cash equivalents | (3,567) | 301 | (197) | (3,463) |
| Cash and cash equivalents at beginning of year | 3,877 | (1,584) | 2,695 | 4,988 |
| Cash and cash equivalents at end of period | $ 310 | $ (1,283) | $ 2,498 | $ 1,525 |

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

### Executive Summary

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

The following is a summary of the key operating results for the three and six months ended June 30, 2009 and 2008 (in thousands except per share amounts):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Consolidated service revenues and sales | $ 295,255 | $ 283,156 | $ 590,193 | $ 568,424 |
| Consolidated net income | $ 17,250 | $ 16,271 | $ 36,589 | $ 32,131 |
| Diluted EPS | $ 0.76 | $ 0.68 | $ 1.61 | $ 1.34 |

For the three months ended June 30, 2009 and 2008, the increase in consolidated service revenues and sales was driven by a 6% increase at VITAS while Roto-Rooter revenues were essentially flat. The increase in service revenues at VITAS was driven by an approximate 1% increase in average daily census (ADC) from the second quarter of 2008, the October 1, 2008 Medicare reimbursement rate increase of approximately 3.5%, a reversal of Medicare cap billing limitations recorded in previous periods and a mix shift to higher acuity days of care. Roto-Rooter was driven by an 8% decrease in job count offset by an approximate 9% price and mix shift increase. The Roto-Rooter changes include the impact of acquisitions in 2008 and 2009, offset by the conversion of one company-owned branch to an independent contractor in 2009. The impact of these transactions is not material. Consolidated net income increased mainly as a result of the increase in revenues. Diluted EPS increased as the result of increased earnings and a reduction in the average shares outstanding due to our stock repurchase program.

For the six months ended June 30, 2009 and 2008, the increase in consolidated service revenues and sales was driven by a 6% increase in service revenues at VITAS while Roto-Rooter revenues were essentially flat. The increase in service revenues at VITAS was driven by the October 1, 2008 Medicare reimbursement rate increase of approximately 3.5%, a reversal of Medicare cap billing limitations recorded in previous periods, an $1.95 million increase related to the retroactive price increase for services in the fourth quarter of 2008 and a mix shift to higher acuity days of care. ADC was flat between periods. Roto-Rooter was driven by a 7% decrease in job count offset by an approximate 9% price and mix shift increase. The Roto-Rooter changes include the impact of acquisitions in 2008, offset by the conversion of one company-owned branch to an independent contractor in 2009. Consolidated net income increased mainly as a result of the increase in revenues. Diluted EPS increased as the result of increased earnings and a reduction in the average shares outstanding due to our stock repurchase program.

VITAS expects to achieve full-year 2009 revenue growth, prior to Medicare cap, of 5.0% to 6.0%. Admissions are estimated to be in the range of 98% to 102% of total 2008 admissions. Full calendar year 2009 Medicare contractual billing limitations are estimated at $2.3 million. Roto-Rooter expects full-year 2009 revenue to range from flat to an increase of 1%. The revenue growth is a result of increased pricing of 5.0%, a favorable mix shift to higher revenue jobs, partially offset by a job count decline estimated at 7.0% to 9.0%. We anticipate that our operating income and cash flows will be sufficient to operate our businesses and meet any commitments for the foreseeable future.

Financial Condition
Liquidity and Capital Resources

Material changes in the balance sheet accounts from December 31, 2008 to June 30, 2009 include the following:

A $6.0 million increase in accounts receivable which results primarily from a $7.5 million increase at VITAS resulting from Medicare related administrative delays in processing payments at certain of our programs offset by a decrease at Roto-Rooter related to a decrease in days sales outstanding.
A $14.5 million decrease in long-term debt which results primarily from an $8.2 million net reduction in our revolving line of credit and a $9.5 million payment on our term loan, offset by $3.2 million amortization of bond discount.

Net cash provided by operating activities increased $1.3 million due primarily to the increase in net income offset by the increase in accounts receivable as noted above.

We have issued $27.8 million in standby letters of credit as of June 30, 2009, for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of June 30, 2009, we have approximately $147.2 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the expansion feature. Management believes its liquidity and sources of capital are satisfactory for the Company's needs in the foreseeable future.

Commitments and Contingencies

Collectively, the terms of our credit agreements require us to meet various financial covenants, to be tested quarterly. In connection therewith, we are in compliance with all financial and other debt covenants as of June 30, 2009 and anticipate remaining in compliance throughout 2009.

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 alleges failure to pay overtime and failure to provide meal and rest periods to a purported class of California admissions nurses, chaplains and sales representatives. The case seeks payment of penalties, interest and Plaintiffs' attorney fees. VITAS contests these allegations. The lawsuit is in its early stages and we are unable to estimate our potential liability, if any, with respect to these allegations.

Regardless of outcome, defense of litigation adversely affects us through defense costs, diversion of our time and related publicity. In the normal course of business, we are a party to various claims and legal proceedings. We record a reserve for these matters when an adverse outcome is probable and the amount of the potential liability is reasonably estimable.

In April 2005, the Office of Inspector General ("OIG") for the Department of Health and Human Services served VITAS with civil subpoenas relating to VITAS' alleged failure to appropriately bill Medicare and Medicaid for hospice services. As part of this investigation, the OIG selected medical records for 320 past and current patients from VITAS' three largest programs for review. It also sought policies and procedures dating back to 1998 covering admissions, certifications, recertifications and discharges. During the third quarter of 2005 and again in May 2006, the OIG requested additional information from us. The Court dismissed a related qui tam complaint filed in U.S. District Court for the Southern District of Florida with prejudice in July 2007. The plaintiffs appealed this dismissal, which the Court of Appeals affirmed. The government continues to investigate the complaint's allegations. In March 2009, we received a letter from the government reiterating the basis of their investigation.

In May of 2009, VITAS received an administrative subpoena from the U.S. Department of Justice requesting VITAS deliver to the OIG documents, patient records, and policy and procedure manuals for headquarters and its Texas programs concerning hospice services provided for the period January 1, 2003 to the date of the letter. Based on the early stage of the investigation and the limited information we have at this time, we cannot predict the outcome of this investigation. We believe that we are in material compliance with Medicare and Medicaid rules and regulations applicable to hospice providers.

We are unable to predict the outcome of these matters or the impact, if any, that the investigation may have on our business, results of operations, liquidity or capital resources. Regardless of outcome, responding to the subpoenas can adversely affect us through defense costs, diversion of our time and related publicity.

Results of Operations
Three months ended June 30, 2009 versus 2008 - Consolidated Results

Our service revenues and sales for the second quarter of 2009 increased 4.3% versus services and sales revenues for the second quarter of 2008. Of this increase, $12.3 million was attributable to VITAS offset by a $156,000 decrease at Roto-Rooter. The following chart shows the components of those changes (dollar amounts in thousands):

| | Increase/(Decrease) Amount | Percent |
|---|---|---|
| VITAS | | |
| Routine homecare | $ 7,280 | 5.0% |
| Continuous care | 5,174 | 17.3% |
| General inpatient | (704) | -2.9% |
| Medicare cap | 505 | - |
| Roto-Rooter | | |
| Plumbing | 2,359 | 6.6% |
| Drain cleaning | (2,218) | -6.1% |
| Other | (297) | -2.4% |
| Total | $ 12,099 | 4.3% |

The increase in VITAS' revenues for the second quarter of 2009 versus the second quarter of 2008 was driven by an approximate 1% increase in average daily census (ADC) from the second quarter of 2008, the October 1, 2008 Medicare reimbursement rate increase of approximately 3.5%, a reversal of Medicare cap billing limitations recorded in previous periods, and a mix shift to higher acuity days of care. The ADC increase is a result of a 0.4% increase in routine homecare, an increase of 11.6% in continuous care and a 6.6% decrease in general inpatient. In excess of 90% of VITAS' service revenues for the period were from Medicare and Medicaid.

The increase in the plumbing revenues for the second quarter of 2009 versus 2008 is attributable to a 17% increase in the average price per job and a 10% decrease in the number of jobs performed. The average price per job for plumbing is attributable to an increase in the number of jobs requiring excavation work. Drain cleaning revenues for the second quarter of 2009 versus 2008 reflect a 7% decline in the number of jobs offset by a 1% increase in the average price per job. The decrease in other revenues is attributable primarily to lower sales of drain cleaning products and decreased revenue from the independent contractor operations.

The consolidated gross margin was 29.8% in the second quarter of 2009 as compared with 29.0% in the second quarter of 2008. On a segment basis, VITAS' gross margin was 23.3% in the second quarter of 2009 and 21.9% in the second quarter of 2008. VITAS' gross margin increased due to the reversal of $505,000 in the Medicare cap accrual and refinements to scheduled field labor. The Roto-Rooter segment's gross margin was 46.2% in the second quarter of 2009 and 45.8% in the second quarter of 2008.

Selling, general and administrative expenses ("SG&A") for the second quarter of 2009 were $49.6 million, an increase of $3.3 million (7%) versus the second quarter of 2008. The increase is primarily related to the impact of stock market gains which increase the liabilities of deferred compensation plans held in trust and an increase in stock-based compensation expense over the comparable prior-year period. The expense associated with the increase in liabilities of deferred compensation plans held in trust is essentially offset with gains recognized in other non-operating income.

Other operating expenses in the second quarter of 2009 of $3.4 million are related to the expenses of a contested proxy solicitation.

Other income increased $2.5 million in the second quarter of 2008 to $3.4 million in the second quarter of 2009 due to the gain in the investments of deferred compensation plans held in trust.

Our effective income tax rate decreased from 39.2% in the second quarter of 2008 to 38.7% in the second quarter of 2009.

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

| | Three Months Ended June 30, 2009 | | Three Months Ended June 30, 2008 | |
|---|---|---|---|---|
| VITAS | | | | |
| Costs associated with OIG investigations | $ | (53) | $ | (35) |
| Corporate | | | | |
| Costs related to contested proxy solicitation | | (2,180) | | - |
| Stock option expense | | (1,544) | | (1,010) |
| Noncash interest expense related to change in accounting for conversion feature of the convertible notes | | (987) | | (979) |
| Impact of non-deductible losses and non-taxable gains on investments held in deferred compensation trusts | | 20 | | - |
| Total | $ | (4,744) | $ | (2,024) |

Three months ended June 30, 2009 versus 2008 - Segment Results

The change in after-tax earnings for the second quarter of 2009 versus the second quarter of 2008 is due to (in thousands):

| | Net Income Increase/(Decrease) Amount | | Percent |
|---|---|---|---|
| VITAS | $ | 2,923 | 20.4% |
| Roto-Rooter | | 458 | 5.5% |
| Corporate | | (2,402) | -37.3% |
| | $ | 979 | 6.0% |

Six months ended June 30, 2009 versus 2008 - Consolidated Results

Our service revenues and sales for the first six months of 2009 increased 3.8% versus services and sales revenues for the first six months of 2008. Of this increase, $22.1 million was attributable to VITAS offset by a $318,000 decrease at Roto-Rooter. The following chart shows the components of those changes (dollar amounts in thousands):

| | Increase/(Decrease) Amount | | Percent |
|---|---|---|---|
| VITAS | | | |
| Routine homecare | $ | 12,717 | 4.4% |
| Continuous care | | 8,768 | 14.4% |
| General inpatient | | (1,583) | -3.1% |
| Medicare cap | | 235 | - |
| BNAF adjustment | | 1,950 | - |
| Roto-Rooter | | | |
| Plumbing | | 4,773 | 6.7% |
| Drain cleaning | | (4,505) | -6.0% |
| Other | | (586) | -2.4% |
| Total | $ | 21,769 | 3.8% |

The increase in VITAS' service revenues for the first six months of 2009 versus the first six months of 2008 is primarily the result of the 2008 Medicare reimbursement rate increase of approximately 3.5%, a $1.95 million increase for the BNAF related to the fourth quarter of 2008, a reversal of Medicare cap reserves of $235,000, as well as favorable mix shift to higher acuity days of care. ADC increased 0.5% compared with the prior year period. This is a result of a 0.4% increase in routine homecare, an increase of 8.8% in continuous care and a 7.1% decrease in general inpatient. In excess of 90% of VITAS' service revenues for the period were from Medicare and Medicaid.

The increase in the plumbing revenues for the first six months of 2009 versus 2008 is attributable to a 17% increase in the average price per job offset by an 8% decrease in the number of jobs performed. The average price per job for plumbing is attributable to an increase in the number of jobs requiring excavation work. Drain cleaning revenues for the first six months of 2009 versus 2008 reflect a 7% decline in the number of jobs offset by a 1% increase in the average price per job. The decrease in other revenues is attributable primarily to lower sales of drain cleaning products and decreased revenue from independent contractor operations.

The consolidated gross margin was 29.8% for the first six months of 2009 as compared with 28.4% for the first six months of 2008. On a segment basis, VITAS' gross margin was 23.3% for the first six months of 2009 and 20.9% for the first six months of 2008. VITAS' gross margin increased as the result of the $1.95 million BNAF adjustment related to fourth quarter of 2008, the reversal of $235,000 in the Medicare cap accrual and refinements to scheduled field labor. The Roto-Rooter segment's gross margin was 45.7% for the first six months of 2009 and 45.8% for the first six months of 2008.

Selling, general and administrative expenses ("SG&A") for the first six months of 2009 were $95.3 million, an increase of $6.3 million (7%) versus the first six months of 2008. The increase is due to the impact of stock market gains which increase the liabilities of deferred compensation plans held in trust, an increase in stock-based compensation expense over the comparable period of 2008 as well as an increase in bad debt expense at VITAS. The expense associated with the increase in the liabilities of deferred compensation plans held in trust is essentially offset with gains recognized in other non-operating income.

Other operating expenses for the first six months of 2009 of $4.0 million are related to the expenses of a contested proxy solicitation.

Other income/(expense) increased from an expense of $303,000 for the first six months of 2008 to income of $3.1 million for the first six months of 2009 due to the gain in the investments of deferred compensation plans held in trust.

Our effective income tax rate increased from 38.6% for the first six months of 2008 to 38.8% for the first six months of 2009.

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

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | | 2009 | | 2008 |
| VITAS | | | | |
| Costs associated with OIG investigations | $ | (61) | $ | (26) |
| Tax credit related to prior years | | - | | 322 |
| Roto-Rooter | | | | |
| Unreserved prior year's insurance claims | | - | | (358) |
| Corporate | | | | |
| Costs related to contested proxy solicitation | | (2,525) | | - |
| Stock option expense | | (2,836) | | (1,894) |
| Noncash interest expense related to change in accounting for conversion feature of the convertible notes | | (1,955) | | (1,939) |
| Impact of non-deductible losses and non-taxable gains on investments held in deferred compensation trusts | | 756 | | - |
| Total | $ | (6,621) | $ | (3,895) |

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Six months ended June 30, 2009 versus 2008 - Segment Results

The change in after-tax earnings for the first six months of 2009 versus the first six months of 2008 is due to (in thousands):

| | Net Income Increase/(Decrease) | |
|---|---|---|
| | Amount | Percent |
| VITAS | $ 6,908 | 25.0% |
| Roto-Rooter | (361) | -2.1% |
| Corporate | (2,089) | -16.1% |
| | $ 4,458 | 13.9% |

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

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CHEMED CORPORATION AND SUBSIDIARY COMPANIES
OPERATING STATISTICS FOR VITAS SEGMENT
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| OPERATING STATISTICS | 2009 | 2008 | 2009 | 2008 |
| Net revenue | | | | |
| Homecare | $ 152,006 | $ 144,726 | $ 299,060 | $ 286,343 |
| Inpatient | 23,667 | 24,371 | 48,759 | 50,342 |
| Continuous care | 35,125 | 29,951 | 69,716 | 60,948 |
| Total before Medicare cap allowance and 2008 BNAF* | $ 210,798 | $ 199,048 | $ 417,535 | $ 397,633 |
| Estimated BNAF* Accrual Q4 2008 | - | - | 1,950 | - |
| Medicare cap allowance | 505 | - | 235 | - |
| Total | $ 211,303 | $ 199,048 | $ 419,720 | $ 397,633 |
| Net revenue as a percent of total before Medicare cap allowance | | | | |
| Homecare | 72.1% | 72.8% | 71.6% | 72.0% |
| Inpatient | 11.2 | 12.2 | 11.7 | 12.7 |
| Continuous care | 16.7 | 15.0 | 16.7 | 15.3 |
| Total before Medicare cap allowance and 2008 BNAF* | 100.0 | 100.0 | 100.0 | 100.0 |
| Estimated BNAF* Accrual Q4 2008 | - | - | 0.5 | - |
| Medicare cap allowance | 0.2 | - | - | - |
| Total | 100.2% | 100.0% | 100.5% | 100.0% |
| Average daily census ("ADC") (days) | | | | |
| Homecare | 7,668 | 7,347 | 7,573 | 7,251 |
| Nursing home | 3,292 | 3,570 | 3,277 | 3,559 |
| Routine homecare | 10,960 | 10,917 | 10,850 | 10,810 |
| Inpatient | 394 | 422 | 407 | 438 |
| Continuous care | 566 | 507 | 567 | 521 |
| Total | 11,920 | 11,846 | 11,824 | 11,769 |
| | | | | |
| Total Admissions | 13,840 | 13,956 | 28,008 | 29,168 |
| Total Discharges | 13,740 | 13,707 | 27,605 | 28,704 |
| Average length of stay (days) | 73.4 | 73.2 | 75.0 | 72.3 |
| Median length of stay (days) | 14.0 | 13.0 | 14.0 | 13.0 |
| ADC by major diagnosis | | | | |
| Neurological | 32.8% | 32.1% | 32.7% | 32.3% |
| Cancer | 19.2 | 20.0 | 19.3 | 20.0 |
| Cardio | 12.1 | 12.9 | 12.2 | 13.0 |
| Respiratory | 6.6 | 6.7 | 6.6 | 6.8 |
| Other | 29.3 | 28.3 | 29.2 | 27.9 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |
| Admissions by major diagnosis | | | | |
| Neurological | 17.3% | 17.7% | 17.9% | 18.5% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Cancer | | 35.4 | | 35.7 | | 34.9 | | 34.6 |
| Cardio | | 11.9 | | 12.0 | | 12.1 | | 12.0 |
| Respiratory | | 7.7 | | 7.9 | | 7.8 | | 8.2 |
| Other | | 27.7 | | 26.7 | | 27.3 | | 26.7 |
| Total | | 100.0% | | 100.0% | | 100.0% | | 100.0% |
| Direct patient care margins | | | | | | | | |
| Routine homecare | | 52.1% | | 51.5% | | 51.9% | | 50.5% |
| Inpatient | | 16.6 | | 17.8 | | 17.1 | | 18.6 |
| Continuous care | | 20.2 | | 17.6 | | 20.2 | | 17.1 |
| Homecare margin drivers (dollars per patient day) | | | | | | | | |
| Labor costs | $ | 51.83 | $ | 49.72 | $ | 52.32 | $ | 50.98 |
| Drug costs | | 7.71 | | 7.74 | | 7.68 | | 7.62 |
| Home medical equipment | | 6.82 | | 6.20 | | 6.75 | | 6.19 |
| Medical supplies | | 2.36 | | 2.32 | | 2.32 | | 2.44 |
| Inpatient margin drivers (dollars per patient day) | | | | | | | | |
| Labor costs | $ | 282.46 | $ | 261.79 | $ | 276.96 | $ | 264.06 |
| Continuous care margin drivers (dollars per patient day) | | | | | | | | |
| Labor costs | $ | 522.27 | $ | 513.89 | $ | 521.79 | $ | 511.70 |
| Bad debt expense as a percent of revenues | | 1.1% | | 1.0% | | 1.1% | | 1.0% |
| Accounts receivable -- days of revenue outstanding | | 55.9 | | 45.3 | | N.A. | | N.A. |

* Budget Neutrality Adjustment Factor.

VITAS has 4 large (greater than 450 ADC), 18 medium (greater than 200 but less than 450 ADC) and 23 small (less than 200 ADC) hospice programs. There are two continuing programs as of June 30, 2009, with Medicare cap cushion of less than 5% for the most recent twelve month period.

Direct patient care margins exclude indirect patient care and administrative costs, as well as Medicare cap billing limitation.

Recent Accounting Statements

In May 2008, the FASB issued Statement of Financial Accounting Standard No. 162 "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). The purpose of this standard is to provide a consistent framework for determining what accounting principles should be used when preparing U.S. GAAP financial statements. SFAS 162 categorizes accounting pronouncements in a descending order of authority. In the instance of potentially conflicting accounting principles, the standard in the highest category must be used. This standard will be replaced when the Statement of Financial Accounting Standard No. 168 "The FASB Accounting Standards Codification" ™ ("SFAS 168") becomes effective. We believe that SFAS 162 has no impact on our existing accounting methods.

In June 2009, the FASB issued Statement of Financial Accounting Standard No. 167 "Amendments to FASB Interpretation No. 46(R)" ("SFAS 167"), which makes significant changes to the model for determining who should consolidate an entity and also addresses how often this assessment should be performed. The determination of who should consolidate a variable interest entity will be based on both quantitative and qualitative factors relating to control, as well as risks and benefits of ownership. This statement is effective in 2010 for calendar-year companies and is to be adopted through a cumulative-effect adjustment. We are currently evaluating the impact of SFAS 167 on our existing accounting methods.

In June 2009, the FASB issued Statement of Financial Accounting Standard No. 168 "The FASB Accounting Standards Codification" ™ ("SFAS 168"). SFAS 168 establishes the Codification as the single source of authoritative nongovernmental U.S. GAAP. The Codification is not intended to change GAAP, but it represents a significant change in the way issues are researched and U.S. GAAP is referenced in financial statements and accounting policies. SFAS 168 will be effective for interim or annual financial periods ending after September 15, 2009. We believe SFAS 168 will have no impact on our existing accounting methods. However, upon adoption, all references in our financial statements to authoritative U.S. GAAP will be made to the Codification and not the historical U.S. GAAP reference.

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our primary market risk exposure relates to interest rate risk exposure through variable interest rate borrowings. At June 30, 2009, we had $5.0 million of variable rate debt outstanding. A 1% change in the interest rate on our variable interest rate borrowings would have a $50,000 full-year impact on our interest expense. At June 30, 2009, the fair value of the Notes approximates $138.4 million which have a face value of $187.0 million.

Item 4. Controls and Procedures

We carried out an evaluation, under the supervision of our President and Chief Executive Officer and with the participation of the Executive Vice President and Chief Financial Officer and the Vice President and Controller, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the President and Chief Executive Officer, Executive Vice President and Chief Financial Officer and Vice President and Controller have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report. There has been no change in our internal control over financial reporting that occurred during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

For information regarding the Company’s legal proceedings, see note 12, Litigation, and note 13, regulatory matters, under Part I, Item I of this Quarterly Report on Form 10-Q.

### Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in the Company’s most recent Annual Report on Form 10-K.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

### Item 3. Defaults Upon Senior Securities

None

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

A. Chemed Corporation held its annual meeting of stockholders on May 29, 2009.

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

| | | |
|---|---|---|
| Kevin J. McNamara | Joel F. Gemunder | Patrick P. Grace |
| Thomas C. Hutton | Walter L. Krebs | Andrea R. Lindell |
| Ernest J. Mrozek | Thomas P. Rice | Donald E. Saunders |
| George J. Walsh III | Frank E. Wood | |

C. The stockholders ratified the selection by the Board of Directors of PricewaterhouseCoopers LLP as independent accountants for the Company and its consolidated subsidiaries for the year 2009: 19,953,310 votes were cast in favor of the proposal, 192,021 votes were cast against it and 41,809 abstained.

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

| | For | Withheld |
|---|---|---|
| Kevin J. McNamara | 20,045,387 | 141,751 |
| Joel F. Gemunder | 18,149,648 | 2,037,491 |
| Patrick P. Grace | 19,245,567 | 941,572 |
| Thomas C. Hutton | 19,242,078 | 945,061 |
| Walter L. Krebs | 19,243,039 | 944,100 |
| Andrea R. Lindell | 20,037,463 | 149,675 |
| Ernest J. Mrozek | 20,043,166 | 143,973 |
| Thomas P. Rice | 20,040,108 | 147,031 |
| Donald E. Saunders | 19,236,391 | 950,748 |
| George J. Walsh III | 18,499,984 | 1,687,155 |
| Frank E. Wood | 20,044,990 | 142,149 |

Item 5. Other Information

None

Item 6. Exhibits

| Exhibit No. | Description |
|---|---|
| 31.1 | Certification by Kevin J. McNamara pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934. |
| 31.2 | Certification by David P. Williams pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934. |
| 31.3 | Certification by Arthur V. Tucker, Jr. pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934. |
| 32.1 | Certification by Kevin J. McNamara pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification by David P. Williams pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.3 | Certification by Arthur V. Tucker, Jr. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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: | July 31, 2009 | By: | Kevin J. McNamara<br>Kevin J. McNamara<br>(President and Chief Executive Officer) |
| Dated: | July 31, 2009 | By: | David P. Williams<br>David P. Williams<br>(Executive Vice President and Chief Financial Officer) |
| Dated: | July 31, 2009 | By: | Arthur V. Tucker, Jr.<br>Arthur V. Tucker, Jr.<br>(Vice President and Controller) |