CHEMED CORP
Form 10-Q
July 31, 2009

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
X No

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

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

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

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					