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CHEMED CORP
Form 10-Q
July 30, 2008

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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, 2008

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 1-8351

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

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

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

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

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

Yes X No

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

Large accelerated filer X Accelerated filer Non-accelerated filer

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

Yes No X

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

Table with 3 columns: Class, Amount, Date. Row 1: Capital Stock \$1 Par Value, 22,906,177 Shares, June 30, 2008

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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, 2008	December 31, 2007
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ASSETS

Current assets		
Cash and cash equivalents	\$ 1,525	\$ 4,988
Accounts receivable less allowances of \$9,638 (2007 - \$9,746)	101,403	101,170
Inventories	7,588	6,596
Current deferred income taxes	14,855	14,212
Prepaid income taxes	2,370	-
Prepaid expenses and other current assets	9,323	10,496
	-----	-----
Total current assets	137,064	137,462
Investments of deferred compensation plans held in trust	30,630	29,417
Notes receivable	-	9,701
Properties and equipment, at cost, less accumulated depreciation of \$95,562 (2007 - \$88,639)	72,276	74,513
Identifiable intangible assets less accumulated amortization of \$19,262 (2007 - \$17,245)	63,160	65,177
Goodwill	439,216	438,689
Other assets	15,870	15,411
	-----	-----
Total Assets	\$ 758,216	\$ 770,370
	=====	=====

LIABILITIES

Current liabilities		
Accounts payable	\$ 50,760	\$ 46,168
Current portion of long-term debt	10,166	10,162
Income taxes	863	4,221
Accrued insurance	34,501	36,337
Accrued compensation	34,492	40,072
Other current liabilities	13,230	13,929
	-----	-----
Total current liabilities	144,012	150,889
Deferred income taxes	4,762	5,802
Long-term debt	217,870	214,669
Deferred compensation liabilities	30,752	29,149
Other liabilities	5,819	5,512
	-----	-----
Total Liabilities	403,215	406,021
	-----	-----

STOCKHOLDERS' EQUITY

Capital stock - authorized 80,000,000 shares \$1 par; issued 29,389,606 shares (2007 - 29,260,791 shares)	29,390	29,261
Paid-in capital	273,812	267,312
Retained earnings	309,506	278,336
Treasury stock - 6,483,429 shares (2007 - 5,299,056 shares), at cost	(260,122)	(213,041)
Deferred compensation payable in Company stock	2,415	2,481
	-----	-----
Total Stockholders' Equity	355,001	364,349
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 758,216	\$ 770,370
	=====	=====

See accompanying notes to unaudited financial statements.

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

	Three Months Ended June 30,		Six Months Ended	
	2008	2007	2008	
Service revenues and sales	\$ 283,156	\$ 271,387	\$ 568,424	\$
Cost of services provided and goods sold (excluding depreciation)	201,139	188,716	406,951	
Selling, general and administrative expenses	46,321	46,090	89,048	
Depreciation	5,370	4,962	10,808	
Amortization	1,489	1,294	2,939	
Other operating expense/(income)	-	-	-	
Total costs and expenses	254,319	241,062	509,746	
Income from operations	28,837	30,325	58,678	
Interest expense	(1,422)	(3,400)	(3,019)	
Loss on extinguishment of debt	-	(13,715)	-	
Other income--net	886	2,188	(303)	
Income before income taxes	28,301	15,398	55,356	
Income taxes	(11,051)	(5,965)	(21,286)	
Net income	\$ 17,250	\$ 9,433	\$ 34,070	\$
Earnings Per Share				
Net income	\$ 0.73	\$ 0.38	\$ 1.44	\$
Average number of shares outstanding	23,486	24,506	23,681	
Diluted Earnings Per Share				
Net income	\$ 0.73	\$ 0.38	\$ 1.42	\$
Average number of shares outstanding	23,759	25,080	24,026	
Cash Dividends Per Share	\$ 0.06	\$ 0.06	\$ 0.12	\$

See accompanying notes to unaudited financial statements.

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(in thousands)

	Six Months Ended June 30,	
	2008	2007
Cash Flows from Operating Activities		
Net income	\$ 34,070	\$ 25,654
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,747	12,286
Provision for uncollectible accounts receivable	4,351	4,009
Stock option expense	2,982	1,482
Provision for deferred income taxes	(1,694)	376
Amortization of debt issuance costs	507	751
Write off unamortized debt issuance costs	-	7,153
Noncash long-term incentive compensation	-	6,154
Changes in operating assets and liabilities, excluding amounts acquired in business combinations		
Increase in accounts receivable	(4,652)	(11,352)
Increase in inventories	(953)	(174)
Decrease in prepaid expenses and other current assets	1,179	1,377
Decrease in accounts payable and other current liabilities	(2,248)	(14,794)
Increase/(decrease) in income taxes	(4,903)	69
Increase in other assets	(1,906)	(3,932)
Increase in other liabilities	1,910	4,540
Excess tax benefit on share-based compensation	(825)	(2,370)
Other sources/(uses)	206	(1,005)
Net cash provided by operating activities	41,771	30,224
Cash Flows from Investing Activities		
Net proceeds/(uses) from discontinued operations	9,439	(5,905)
Capital expenditures	(8,715)	(13,908)
Business combinations, net of cash acquired	(577)	(62)
Proceeds from sales of property and equipment	71	3,003
Other uses	(306)	(564)
Net cash used by investing activities	(88)	(17,436)
Cash Flows from Financing Activities		
Purchases of treasury stock	(45,791)	(130,748)
Net increase in revolving line of credit	8,300	13,300
Repayment of long-term debt	(5,095)	(185,643)
Dividends paid	(2,900)	(2,997)
Increase/(decrease) in cash overdrafts payable	(655)	166
Excess tax benefit on share-based compensation	825	2,370
Issuance of capital stock	116	2,069
Proceeds from issuance of long-term debt	-	300,000
Purchase of note hedges	-	(54,939)
Proceeds from issuance of warrants	-	27,614
Debt issuance costs	-	(6,395)
Other sources	54	610
Net cash used by financing activities	(45,146)	(34,593)
Decrease in Cash and Cash Equivalents	(3,463)	(21,805)
Cash and cash equivalents at beginning of year	4,988	29,274
Cash and cash equivalents at end of period	\$ 1,525	\$ 7,469

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See accompanying notes to unaudited financial statements.

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CHEMED CORPORATION AND SUBSIDIARY COMPANIES
Notes to Unaudited Financial Statements

1. Basis of Presentation

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

We have prepared the accompanying unaudited consolidated financial statements of Chemed in accordance with Rule 10-01 of SEC Regulation S-X. Consequently, we have omitted certain disclosures required under generally accepted accounting principles in the United States ("GAAP") for complete financial statements. The December 31, 2007 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, 2007. Certain 2007 amounts have been reclassified to conform with current period presentation on the balance sheet related to the presentation of Medicaid nursing home pass-through activity at our VITAS subsidiary.

2. Revenue Recognition

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

As of June 30, 2008, VITAS has approximately \$12.2 million in unbilled revenue included in accounts receivable (December 31, 2007 - \$9.5 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. During the past year, the pace of FMR activity has increased industry-wide, resulting in our significant unbilled revenue balances. We make appropriate provisions to reduce our accounts receivable balance for potential denials of patient service revenue due to FMR activity.

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

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Medicare cap measurement period is from September 29 through September 28 of the following year for admissions and from November 1 through October 31 of the following year for revenue. As of the date of this filing, for the 2007 and 2008 measurement periods, we estimate that no programs have a required Medicare billing reduction. Our current estimates for the projected full year 2007 and 2008 measurement periods anticipate no programs with a Medicare cap billing limitation. Therefore, no revenue reduction for Medicare cap has been recorded for the three or six-month periods ended June 30, 2008.

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3. Segments

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

	Three months ended June 30,		Six months June 30
	2008	2007	2008
<u>Service Revenues and Sales</u>			
VITAS	\$ 199,048	\$ 185,701	\$397,633
Roto-Rooter	84,108	85,686	170,791
Total	\$ 283,156	\$ 271,387	\$568,424
<u>After-tax Earnings</u>			
VITAS	\$ 14,321	\$ 14,154	\$ 27,619
Roto-Rooter	8,393	10,491	17,488
Total	22,714	24,645	45,107
Corporate	(5,464)	(15,212)	(11,037)
Net income	\$ 17,250	\$ 9,433	\$ 34,070

Beginning on January 1, 2008, the income statement impact of our deferred compensation plans covering Roto-Rooter employees has been classified as a Corporate activity. Historically, the income statement impact has been recorded as a Roto-Rooter activity. Due to the volatility in the capital markets, Roto-Rooter's operational results were being distorted in our management reporting as a result of the activity of the deferred compensation plans. Our Chief Operating Decision Maker, Kevin McNamara, determined that the income statement impact of Roto-Rooter's deferred compensation plans is more appropriately classified as a Corporate activity. Our internal management reporting documents have been changed to reflect this determination. The comparable prior-year period has been reclassified to conform to the current-year presentation.

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 2008 and 2007 are computed as follows (in thousands, except per

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share data):

	For the Three Months Ended June 30,	Net Income	Shares	Earnings per Share
2008				
Earnings		\$ 17,250	23,486	\$ 0.73
Dilutive stock options		-	247	
Nonvested stock awards		-	26	
Diluted earnings		\$ 17,250	23,759	\$ 0.73
2007				
Earnings		\$ 9,433	24,506	\$ 0.38
Dilutive stock options		-	481	
Nonvested stock awards		-	93	
Diluted earnings		\$ 9,433	25,080	\$ 0.38

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	For the Six Months Ended June 30,	Net Income	Shares	Earnings per Share
2008				
Earnings		\$ 34,070	23,681	\$ 1.44
Dilutive stock options		-	315	
Nonvested stock awards		-	30	
Diluted earnings		\$ 34,070	24,026	1.42
2007				
Earnings		\$ 25,654	25,108	\$ 1.02
Dilutive stock options		-	459	
Nonvested stock awards		-	117	
Diluted earnings		\$ 25,654	25,684	1.00

For the three and six month periods ended June 30, 2008, 1,084,267 and 832,267 stock options, respectively 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. No stock options were excluded for the comparable period in 2007.

Diluted earnings per share may be impacted in future periods as the result of the issuance of our \$200 million Convertible 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, we will not include any shares related to the Notes in our

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

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

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

5. Long-Term Debt

We are in compliance with all debt covenants as of June 30, 2008. We have issued \$27.5 million in standby letters of credit as of June 30, 2008 mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of June 30, 2008, we have approximately \$139.2 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the expansion feature.

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6. Other Income -- Net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Interest income	\$ 106	\$ 944	\$ 443	\$1,711

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(Loss)/gain on trading investments of employee benefit trust	841	1,237	(681)	1,45
Loss on disposal of property and equipment	(84)	(56)	(113)	(19
Other - net	23	63	48	8
	-----	-----	-----	-----
Total other income	\$ 886	\$2,188	\$ (303)	\$3,05
	=====	=====	=====	=====

7. Other Current Liabilities

Other current liabilities as of June 30, 2008 and December 31, 2007 consist of the following (in thousands):

	2008	2007
	-----	-----
Accrued legal settlements	\$ 2,106	\$ 2,393
Accrued divestiture expenses	844	845
Accrued Medicare cap estimate	500	500
Other	9,780	10,191
	-----	-----
Total other current liabilities	\$13,230	\$13,929
	=====	=====

8. Stock-Based Compensation Awards

On May 19, 2008, the Compensation/Incentive Committee of the Board of Directors ("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 \$5.3 million and will be recognized ratably over the three year vesting period. We used the Black-Scholes option valuation method to determine the cumulative compensation expense of the grant.

On February 13, 2008, the CIC approved a grant of 40,315 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 \$2.1 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.

9. Loans Receivable from Independent Contractors

The Roto-Rooter segment sublicenses with approximately sixty-two independent contractors to operate certain plumbing repair and drain cleaning businesses in lesser-populated areas of the United States and Canada. As of June 30, 2008, we had notes receivable from our independent contractors totaling \$1.6 million (December 31, 2007 -\$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 2 months to 5 years at June 30, 2008. During the three months ended June 30, 2008, we recorded revenues of \$5.6 million (2007 - \$5.4 million) and pretax profits of \$2.4 million (2007 - \$2.3 million) from our independent contractors. During the six months ended June 30, 2008, we recorded revenues of \$11.2 million (2007 - \$10.8 million) and pretax profits of \$5.1 million (2007 - \$4.7 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

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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.

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10. 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 \$3.8 million and \$4.1 million for the three months ended June 30, 2008 and 2007, respectively. Expenses for the Company's pension and profit-sharing plans, excess benefit plans and other similar plans were \$5.5 million and \$7.7 million for the six months ended June 30, 2008 and 2007, respectively.

11. 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.

In April 2007, our Roto-Rooter subsidiary was named in a class action lawsuit filed in San Mateo Superior Court by Stanley Ita ("Ita") alleging class-wide wage and hour violations at one California branch. This suit alleges failure to provide meal and break periods, credit for work time beginning from the first call to dispatch rather than arrival at first assignment and improper calculations of work time and overtime. The case sought payment of penalties, interest and Plaintiffs' attorney fees. After the suit was filed, we offered a settlement to certain members of the class and paid approximately \$200,000. In January 2008, we agreed to a tentative settlement with the remaining members of the class for approximately \$1.8 million. The tentative settlement was preliminarily approved by the court in May 2008. We anticipate final approval and payment to be made during the third quarter of 2008. The settlement was accrued in the fourth quarter of 2007.

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.

12. OIG Investigation

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

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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 are appealing this dismissal. Pretax expenses related to complying with OIG requests were immaterial for the three and six months ended June 30, 2008 and 2007.

The government continues to investigate the complaint's allegations. We are unable to predict the outcome of this matter or the impact, if any, that the investigation may have on our business, results of operations, liquidity or capital resources. Regardless of outcome, responding to the subpoenas and defending the litigation can adversely affect us through defense costs, diversion of our time and related publicity.

13. Related Party Agreement

In October 2004, VITAS entered into a pharmacy services agreement ("Agreement") with Omnicare, Inc. ("OCR") whereby OCR provides specified pharmacy services for VITAS and its hospice patients in geographical areas served by both VITAS and OCR. The Agreement has an initial term of three years that renews automatically for one-year terms. Either party may cancel the Agreement at the end of any term by giving written notice at least 90 days prior to the end of said term. In June 2004, VITAS entered into a pharmacy services agreement with excelleRx. The agreement has a one-year term and automatically renews unless either party provides a 90-day written termination notice. Subsequent to June 2004, OCR acquired excelleRx. Under both agreements, VITAS made purchases of \$8.3 million for each of the three months ended June 30, 2008 and 2007. Under both agreements, VITAS made purchases of \$16.5 million and \$16.6 million for the six months ended June 30, 2008 and 2007, respectively. VITAS has accounts payable to OCR of \$731,000 at June 30, 2008.

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Mr. E. L. Hutton is non-executive Chairman of the Board and a director of the Company. He was a director of OCR until his retirement in the first quarter of 2008 at which time he assumed the honorary post of Chairman Emeritus of OCR's Board. Mr. Joel F. Gemunder, President and Chief Executive Officer of OCR., Ms. Andrea Lindell and Ms. Sandra Laney are directors of both OCR and the Company. Mr. Kevin J. McNamara, President, Chief Executive Officer and a director of the Company, is a director emeritus of OCR. We believe that the terms of these agreements are no less favorable to VITAS than we could negotiate with an unrelated party.

14. Cash Overdrafts Payable

Included in accounts payable at June 30, 2008 is cash overdrafts payable of \$9.0 million (December 31, 2007 - \$9.5 million).

15. Capital Stock Transactions

On May 19, 2008 our Board of Directors authorized an additional \$56 million to the April 2007 stock repurchase program. For the three months ended June 30, 2008 and 2007, we repurchased approximately 830,000 shares at a weighted average cost of \$35.46 per share and 1.5 million shares at a weighted average cost of \$65.26 per share, respectively. For the six months ended June 30, 2008 and 2007, we repurchased approximately 1.1 million shares at a weighted average cost of \$39.11 per share and 2.1 million shares at a weighted average cost of \$59.82 per share, respectively.

16. Fair Value Measurements

On January 1, 2008, we partially adopted the provisions of Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS

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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 adoption of SFAS 157. We have elected to partially defer adoption of SFAS 157 related to our goodwill and indefinite lived intangible assets in accordance with FASB Staff Position No. 157-2.

As of June 30, 2008, we hold \$30.6 million of investments in mutual funds and company owned life insurance policies in a Rabbi Trust related to certain of our deferred compensation plans. These investments are valued using quoted prices in active markets for identical investments (Level 1).

17. Recent Accounting Statements

In June 2008, the EITF reached a consensus on EITF Issue No. 07-5, "Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity's Own Stock". The consensus provides additional guidance when determining whether an option or warrant on an entity's own shares are eligible for the equity classification provided for in EITF 00-19. The consensus is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the impact of this consensus on our outstanding options and warrants issued in connection with our 2007 convertible debt transaction.

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. This will create a discount at inception to be recorded in equity. The debt portion is to be accreted to its face value, through interest expense, over the life of the instrument using the effective interest method. This will result in higher interest expense over the life of the instrument and an increase in equity at the inception of the instrument. Debt issuance costs are also to be allocated between the debt and equity components using a rationale method. Finally, the FSP requires that the Company value any embedded features of the instrument, other than the conversion option, as a part of the liability. The new standard is effective for all fiscal years (and interim periods) beginning after December 15, 2008. As such, we will adopt the new standard on January 1, 2009. The FSP is to be applied retrospectively. Upon adoption, our preliminary estimate is that our \$200 million, 1.875% Convertible Debentures issued in May 2007 will have a discount of between \$50 million and \$60 million.

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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

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potentially conflicting accounting principles, the standard in the highest category must be used. This statement will be effective 60 days after the SEC approves the Public Company Accounting and Oversight Board's related amendments. We believe that SFAS 162 will have no impact on our existing accounting methods.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 141(R) "Business Combinations (revised 2007)" ("SFAS 141(R)"), which changes certain aspects of the accounting for business combinations. This Statement retains the fundamental requirements in Statement No. 141 that the purchase method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141(R) modifies existing accounting guidance in the areas of deal and restructuring costs, acquired contingencies, contingent consideration, in-process research and development, accounting for subsequent tax adjustments and assessing the valuation date. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. There will be no impact on our financial statements as a result of the adoption of SFAS 141(R); however our accounting for all business combinations after adoption will comply with the new standard.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 160 "Non-controlling Interests in Consolidated Financial Statements - an amendment of ARB No. 51" ("SFAS 160"), which requires ownership interests in subsidiaries held by others to be clearly identified, labeled and presented in the consolidated balance sheet within equity but separate from the parent company's equity. SFAS 160 also affects the accounting requirements when the parent company either purchases a higher ownership interest or deconsolidates the equity investment. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. We currently do not have non-controlling interests in our consolidated financial statements.

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18. Guarantor Subsidiaries

Our 1.875% Notes are fully and unconditionally guaranteed on an unsecured, joint and severally liable basis by certain of our 100% owned subsidiaries. The following unaudited, condensed, consolidating financial data presents the composition of the parent company (Chemed), the guarantor subsidiaries and the non-guarantor subsidiaries as of June 30, 2008 and December 31, 2007 for the balance sheet and the three and six months ended June 30, 2008 and 2007 for the income statement and the statement of cash flows (dollars in thousands):

As of June 30, 2008

	Parent	Guarantor Subsidiaries	Non-Guarant Subsidiari
ASSETS			
Cash and cash equivalents	\$ 310	\$ (1,283)	\$ 2,
Accounts receivable, less allowances	926	99,780	
Intercompany receivables	15,151	-	(4,
Inventories	-	6,902	
Prepaid income taxes	1,823	-	

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Current deferred income taxes	(438)	15,158	
Prepaid expenses and other current assets	1,582	7,652	
Total current assets	19,354	128,209	
Investments of deferred compensation plans held in trust	-	-	30,
Properties and equipment, at cost, less accumulated depreciation	4,118	65,985	2,
Identifiable intangible assets less accumulated amortization	-	63,159	
Goodwill	-	434,442	4,
Other assets	13,011	2,557	
Investments in subsidiaries	533,801	12,898	
Total assets	\$ 570,284	\$707,250	\$ 37,
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accounts payable	\$ 3,610	\$ 46,802	\$ 3,
Intercompany payables	-	7,314	
Current portion of long-term debt	10,000	166	
Income taxes	(1,409)	1,962	
Accrued insurance	509	33,992	
Accrued salaries and wages	1,581	32,377	
Other current liabilities	2,454	10,583	
Deferred income taxes	(22,990)	38,637	(10,
Long-term debt	217,800	70	
Deferred compensation liabilities	-	-	30,
Other liabilities	3,728	2,072	
Stockholders' equity	355,001	533,275	13,
Total liabilities and stockholders' equity	\$ 570,284	\$707,250	\$ 37,
as of December 31, 2007			
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
ASSETS			
Cash and cash equivalents	\$ 3,877	\$ (1,584)	\$ 2,
Accounts receivable, less allowances	706	99,900	
Intercompany receivables	42,241	-	(3,
Inventories	-	6,116	
Current deferred income taxes	130	13,964	
Prepaid expenses and other current assets	884	9,521	
Total current assets	47,838	127,917	
Investments of deferred compensation plans held in trust	-	-	29,
Note receivable	9,701	-	
Properties and equipment, at cost, less accumulated depreciation	4,306	68,303	1,
Identifiable intangible assets less accumulated amortization	-	65,176	
Goodwill	-	433,946	4,
Other assets	12,658	2,450	
Investments in subsidiaries	500,952	11,005	
Total assets	\$ 575,455	\$708,797	\$ 36,
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accounts payable	\$ (1,236)	\$ 47,035	\$ 3,
Intercompany payables	-	34,992	
Current portion of long-term debt	10,000	162	

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Income taxes	1,137	3,034	
Accrued insurance	255	36,082	
Accrued salaries and wages	3,882	35,505	
Other current liabilities	2,047	10,486	1,
Deferred income taxes	(23,174)	39,247	(10,
Long-term debt	214,500	169	
Deferred compensation liabilities	-	-	29,
Other liabilities	3,695	1,797	
Stockholders' equity	364,349	500,288	11,
	-----	-----	-----
Total liabilities and stockholders' equity	\$ 575,455	\$708,797	\$ 36,
	=====	=====	=====

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For the three months ended June 30, 2008	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated Adjustments
	-----	-----	-----	-----
Net sales and service revenues	\$ -	\$ 276,973	\$ 6,183	\$
Cost of services provided and goods sold	-	198,098	3,041	
Selling, general and administrative expenses	4,479	39,742	2,100	
Depreciation	118	5,084	168	
Amortization	481	1,008	-	
	-----	-----	-----	-----
Total costs and expenses	5,078	243,932	5,309	
Income/ (loss) from operations	(5,078)	33,041	874	
Interest expense	(1,313)	(109)	-	
Other income - net	1,506	(1,489)	869	
	-----	-----	-----	-----
Income/ (loss) before income taxes	(4,885)	31,443	1,743	
Income tax (provision)/ benefit	1,302	(11,980)	(373)	
Equity in net income of subsidiaries	20,833	1,302	-	(22,
	-----	-----	-----	-----
Net Income	\$ 17,250	\$ 20,765	\$ 1,370	\$ (22,
	=====	=====	=====	=====
For the three months ended June 30, 2007	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated Adjustments
	-----	-----	-----	-----
Net sales and service revenues	\$ -	\$ 265,235	\$ 6,152	\$
Cost of services provided and goods sold	-	185,671	3,045	
Selling, general and administrative expenses	4,713	40,438	939	
Depreciation	121	4,687	154	
Amortization	284	1,010	-	
	-----	-----	-----	-----
Total costs and expenses	5,118	231,806	4,138	
Income/ (loss) from operations	(5,118)	33,429	2,014	
Interest expense	(3,273)	(126)	(1)	
Loss on extinguishment of debt	(13,715)	-	-	
Other income - net	4,492	(2,343)	39	
	-----	-----	-----	-----
Income/ (loss) before income taxes	(17,614)	30,960	2,052	
Income tax (provision)/ benefit	6,518	(11,644)	(839)	

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Equity in net income of subsidiaries	20,529	1,213	-	(21)
Net Income	\$ 9,433	\$ 20,529	\$ 1,213	\$ (21)
For the six months ended June 30, 2008				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consoli Adjustm
Net sales and service revenues	\$ -	\$ 555,835	\$ 12,589	\$
Cost of services provided and goods sold	-	400,802	6,149	
Selling, general and administrative expenses	8,529	78,530	1,989	
Depreciation	242	10,233	333	
Amortization	922	2,017	-	
Total costs and expenses	9,693	491,582	8,471	
Income/ (loss) from operations	(9,693)	64,253	4,118	
Interest expense	(2,776)	(242)	(1)	
Other income - net	2,874	(2,545)	(632)	
Income/ (loss) before income taxes	(9,595)	61,466	3,485	
Income tax (provision)/ benefit	3,360	(22,959)	(1,687)	
Equity in net income of subsidiaries	40,305	2,001	-	(42)
Net Income	\$ 34,070	\$ 40,508	\$ 1,798	\$ (42)
For the six months ended June 30, 2007				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consoli Adjustm
Net sales and service revenues	\$ -	\$ 529,530	\$ 12,296	\$
Cost of services provided and goods sold	-	370,776	6,187	
Selling, general and administrative expenses	10,358	81,642	2,160	
Depreciation	243	9,135	299	
Amortization	589	2,020	-	
Impairment, restructuring and similar expenses	(1,138)	-	-	
Total costs and expenses	10,052	463,573	8,646	
Income/ (loss) from operations	(10,052)	65,957	3,650	
Interest expense	(6,896)	(245)	(1)	
Loss on extinguishment of debt	(13,715)	-	-	
Other income - net	9,598	(6,627)	86	
Income/ (loss) before income taxes	(21,065)	59,085	3,735	
Income tax (provision)/ benefit	7,869	(22,433)	(1,537)	
Equity in net income of subsidiaries	38,850	2,198	-	(41)
Net Income	\$ 25,654	\$ 38,850	\$ 2,198	\$ (41)

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For the six months ended June 30, 2008

	Parent	Guarantor Subsidiaries	Non-Guarant Subsidiarie
Cash Flow from Operating Activities:			
Net cash provided by/(used in) operating activities	\$ (3,607)	\$ 45,529	\$ (151)
Cash Flow from Investing Activities:			
Capital expenditures	(62)	(8,042)	(611)
Business combinations, net of cash acquired	(1)	(576)	-
Net proceeds from discontinued operations	9,439	-	-
Proceeds from sale of property and equipment	10	43	18
Other sources and uses - net	(323)	17	-
Net cash provided/ (used) by investing activities	9,063	(8,558)	(593)
Cash Flow from Financing Activities:			
Increase/(decrease) in cash overdrafts payable	826	(1,481)	-
Change in intercompany accounts	34,654	(35,241)	587
Dividends paid to shareholders	(2,900)	-	-
Purchases of treasury stock	(45,791)	-	-
Proceeds from exercise of stock options	116	-	-
Realized excess tax benefit on share based compensation	825	-	-
Net change in revolving credit facility	8,300	-	-
Repayment of long-term debt	(5,000)	(95)	-
Other sources and uses - net	(53)	147	(40)
Net cash provided/ (used) by financing activities	(9,023)	(36,670)	547
Net increase/(decrease) in cash and cash equivalents	(3,567)	301	(197)
Cash and cash equivalents at beginning of year	3,877	(1,584)	2,695
Cash and cash equivalents at end of period	\$ 310	\$ (1,283)	\$2,498

For the six months ended June 30, 2007

	Parent	Guarantor Subsidiaries	Non-Guaran Subsidiari
Cash Flow from Operating Activities:			
Net cash provided/(used) by operating activities	\$ (5,430)	\$ 34,957	\$ 697
Cash Flow from Investing Activities:			
Capital expenditures	(156)	(13,437)	(315)
Business combinations, net of cash acquired	-	(62)	-
Net payments from discontinued operations	(2,166)	(3,739)	-
Proceeds from sale of property and equipment	2,962	35	6
Other sources and uses - net	(450)	(114)	-
Net cash provided/ (used) by investing activities	190	(17,317)	(309)
Cash Flow from Financing Activities:			
Increase/(decrease) in cash overdrafts payable	784	(618)	-
Change in intercompany accounts	16,723	(16,696)	(27)
Dividends paid to shareholders	(2,997)	-	-
Purchases of treasury stock	(130,748)	-	-
Proceeds from exercise of stock options	2,069	-	-
Realized excess tax benefit on share based compensation	2,370	-	-

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Purchase of note hedges	(54,939)	-	-
Proceeds from issuance of warrants	27,614	-	-
Net change in revolving credit facility	13,300	-	-
Proceeds from issuance of long-term debt	300,000	-	-
Debt issuance costs	(6,395)	-	-
Repayment of long-term debt	(185,500)	(143)	-
Other sources and uses - net	19	(1)	592
	-----	-----	-----
Net cash provided/ (used) by financing activities	(17,700)	(17,458)	565
	-----	-----	-----
Net increase/(decrease) in cash and cash equivalents	(22,940)	182	953
Cash and cash equivalents at beginning of year	25,258	(1,314)	5,330
	-----	-----	-----
Cash and cash equivalents at end of period	\$ 2,318	\$ (1,132)	\$6,283
	=====	=====	=====

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

Executive Summary

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

The following is a summary of the key operating results for the three and six months ended June 30, 2008 and 2007 (in thousands except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	-----	-----	-----	-----
Consolidated service revenues and sales	\$283,156	\$271,387	\$568,424	\$541,826
Consolidated net income	\$ 17,250	\$ 9,433	\$ 34,070	\$ 25,654
Diluted EPS	\$ 0.73	\$ 0.38	\$ 1.42	\$ 1.00

For the three months ended June 30, 2008 and 2007, the increase in consolidated service revenues and sales was driven by a 7% increase at VITAS offset by a 2% decline at Roto-Rooter. The increase at VITAS was primarily the result of a 4% increase in average daily census (ADC) from the second quarter of 2007 and the October 1, 2007 Medicare reimbursement rate increase of approximately 3%. Roto-Rooter was driven by a 10% decrease in job count offset by an 8% price and mix shift increase. Consolidated net income for the three months ended June 30, 2007 includes a \$13.7 million pretax loss on

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extinguishment of debt which did not recur for the same time period of 2008. Diluted EPS increased as the result of increased earnings and a reduction of diluted share count due to our stock repurchase program.

For the six months ended June 30, 2008 and 2007, the increase in consolidated service revenues and sales was driven by an 8% increase at VITAS offset by a 1% decline at Roto-Rooter. The increase at VITAS was primarily the result of a 4% increase in ADC, the October 1, 2007 Medicare reimbursement rate increase and a slight shift in mix of service provided. Roto-Rooter was driven by a 9% decrease in job count offset by an 8% increase in price and mix shift increase. Consolidated net income for the six months ended June 30, 2007 includes a \$13.7 million pretax loss on extinguishment of debt which did not recur for the same time period of 2008. Diluted EPS increased as the result of increased earnings and a reduction of diluted share count due to our stock repurchase program.

Financial Condition

Liquidity and Capital Resources

Significant changes in the balance sheet accounts from December 31, 2007 to June 30, 2008 include the following:

- o The notes receivable due from Patient Care were collected in full during the first quarter of 2008.
- o The increase in treasury stock relates to the repurchase of approximately 1.1 million shares under the 2007 Share Repurchase Program since year end.

Net cash provided by operations increased \$11.5 million due primarily to the increase in net income. Capital expenditures for the first six months of 2008 decreased by \$5.2 million compared to the same period in 2007 due mainly to the development of a patient information capture software system in 2007 at VITAS.

We have issued \$27.5 million in standby letters of credit as of June 30, 2008 mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of June 30, 2008, we have approximately \$139.2 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.

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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, 2008 and anticipate remaining in compliance throughout 2008.

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

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allegations. The lawsuit is in its early stage and we are unable to estimate our potential liability, if any, with respect to these allegations.

In April 2007, our Roto-Rooter subsidiary was named in a class action lawsuit filed in San Mateo Superior Court by Stanley Ita ("Ita") alleging class-wide wage and hour violations at one California branch. This suit alleges failure to provide meal and break periods, credit for work time beginning from the first call to dispatch rather than arrival at first assignment and improper calculations of work time and overtime. The case sought payment of penalties, interest and Plaintiffs' attorney fees. After the suit was filed, we offered a settlement to certain members of the class and paid approximately \$200,000. In January 2008, we agreed to a tentative settlement with the remaining members of the class for approximately \$1.8 million. The tentative settlement was preliminarily approved by the court in May 2008. We anticipate final approval and payment to be made during the third quarter of 2008. The settlement was accrued in the fourth quarter of 2007.

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 are appealing this dismissal. Pretax expenses related to complying with OIG requests were immaterial for the three and six months ended June 30, 2008 and 2007.

The government continues to investigate the complaint's allegations. We are unable to predict the outcome of this matter or the impact, if any, that the investigation may have on our business, results of operations, liquidity or capital resources. Regardless of outcome, responding to the subpoenas and defending the litigation can adversely affect us through defense costs, diversion of our time and related publicity.

Results of Operations

Three months ended June 30, 2008 versus 2007 - Consolidated Results

Our service revenues and sales for the second quarter of 2008 increased 4.3% versus revenues for the second quarter of 2007. Of this increase, \$13.3 million was attributable to VITAS while Roto-Rooter declined by \$1.6 million, as follows (dollars in thousands):

		Increase/(Decrease)	
		Amount	Percent
		-----	-----
VITAS	Routine homecare	\$ 9,932	7.4%
	Continuous care	1,789	6.3%
	General inpatient	1,626	7.1%
Roto-Rooter	Plumbing	(91)	-0.3%
	Drain cleaning	(1,072)	-2.9%

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Other	(415)	-3.3%

Total	\$ 11,769	4.3%
	=====	

The increase in VITAS' revenues for the second quarter of 2008 versus the second quarter of 2007 is attributable to an increase in ADC of 4.1% for routine homecare, a 2.2% increase in general inpatient and a 0.6% increase in continuous care. ADC is a key measure we use to monitor volume growth in our hospice business. Changes in total program admissions and average length of stay

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for our patients are the main drivers of changes in ADC. The remainder of the revenue increase is due primarily to the annual increase in Medicare reimbursement rates in the fourth quarter of 2007. In excess of 90% of VITAS' revenues for the period were from Medicare and Medicaid.

The decrease in the plumbing revenues for the second quarter of 2008 versus 2007 comprises a 7.4% decrease in the number of jobs performed offset by increased prices and job mix. The decrease in drain cleaning revenues for the second quarter of 2008 versus 2007 comprised a 10.8% decline in the number of jobs offset by an 8% increase caused by increased prices and job mix. The decrease in other revenues is attributable primarily to lower sales of drain cleaning products and plumbing parts. These sales are highly dependent upon revenues in our other Roto-Rooter service lines.

The consolidated gross margin was 29.0% in the second quarter of 2008 as compared to 30.5% in the second quarter of 2007. On a segment basis, VITAS' gross margin was 21.9% in the second quarter of 2008 and 22.1% in the second quarter of 2007. The Roto-Rooter segment's gross margin was 45.8% in the second quarter of 2008 and 48.6% in the second quarter of 2007. The decrease in Roto-Rooter's gross margin in 2008 is primarily attributable to lower service revenues and sales which did not allow Roto-Rooter to cover as much of its fixed overhead costs, as well as higher medical and casualty insurance expense caused by an increase in claims experience.

Selling, general and administrative expenses ("SG&A") for the second quarter of 2008 were \$46.3 million, an increase of \$231,000 (0.5%) versus the second quarter of 2007. The increase is due to higher revenue, which increased our variable selling expenses offset by a \$1.6 million LTIP pay-out in May 2007. There was no similar LTIP pay out in 2008.

Interest expense, substantially all of which is incurred at Corporate, declined from \$3.4 million in the second quarter of 2007 to \$1.4 million in the second quarter of 2008. This decline is due primarily to the refinancing transactions in May 2007. Additionally, the 2007 loss on extinguishment of debt is the result of the May 2007 refinancing transactions.

Other income-net decreased from \$2.2 million in the second quarter of 2007 to \$886,000 in the second quarter of 2008. The decrease is attributable mainly to market losses from investments held in our deferred compensation benefit plans and lower interest income.

Our effective income tax rate was 38.7% in the second quarter of 2007 compared to 39.0% in the second quarter of 2008. Net income for both periods included the following after-tax special items/adjustments that (increased)/reduced after-tax earnings (in thousands):

Three Months Ended

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	June 30,	
	2008	2007
Stock option expense	\$1,010	\$ 570
Legal expenses of OIG Investigation	35	46
Loss on extinguishment of debt	-	8,726
Long-term incentive compensation award	-	1,013
	\$1,045	\$10,355

Three months ended June 30, 2008 versus 2007 - Segment Results

The change in after-tax earnings for the second quarter of 2008 versus the second quarter of 2007 is due to (in thousands):

	Net Income Increase/ (Decrease)	
	Amount	Percent
VITAS	\$ 167	1.2%
Roto-Rooter	(2,098)	-20.0%
Corporate	9,748	64.1%
	\$ 7,817	82.9%

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Six months ended June 30, 2008 versus 2007 - Consolidated Results

Our service revenues and sales for the first six months of 2008 increased 4.9% versus revenues for the first six months of 2007. Of this increase, \$27.9 million was attributable to VITAS offset by a \$1.3 million decline at Roto-Rooter, as follows: (dollars in thousands):

	Increase/ (Decrease)	
	Amount	Percent
VITAS		
Routine homecare	\$ 20,002	7.5%
Continuous care	4,218	7.4%
General inpatient	4,135	8.9%
Medicare cap	(472)	-100%
Roto-Rooter		
Plumbing	279	0.4%
Drain cleaning	(1,092)	-1.4%
Other	(472)	-1.9%

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Total	\$ 26,598	4.9%
	=====	

The increase in VITAS' revenues for the first six months of 2008 versus the first six months of 2007 is attributable to an increase in ADC of 3.7% for routine homecare, 4.5% for general inpatient care and 1.4% in continuous care. ADC is a key measure we use to monitor volume growth in our hospice business. Changes in total program admissions and average length of stay for our patients are the main drivers of changes in ADC. The remainder of the revenue increases is due primarily to the annual increase in Medicare reimbursement rates in the fourth quarter of 2007. In excess of 90% of VITAS' revenues for the period were from Medicare and Medicaid. We did not record a Medicare cap liability during the first six months of 2008.

The change in the plumbing revenues for the first six months of 2008 versus 2007 comprises a 6.2% decrease in the number of jobs performed offset by increased prices and job mix. The decrease in drain cleaning revenues for the first six months of 2008 versus 2007 comprised a 9.3% decline in the number of jobs offset by an 8% increase due to increased price and job mix. The decrease in other revenues is attributable primarily to lower sales of drain cleaning products and plumbing parts. These sales are highly dependent upon revenues in our other Roto-Rooter service lines.

The consolidated gross margin was 28.4% in the first six months of 2008 as compared with 30.4% in the first six months of 2007. On a segment basis, VITAS' gross margin was 20.9% in the first six months of 2008 and 22.5% in the first six months of 2007. The decrease in VITAS' gross margin in 2008 is primarily attributable to increases in staffing at the admissions level and increased direct patient care labor. VITAS gross margin was down 2.8% during the first three months of 2008 but has returned to more historical levels during the second quarter. The Roto-Rooter segment's gross margin was 45.8% in the first six months of 2008 as compared to 47.6% in the first six months of 2007. The decrease in Roto-Rooter's gross margin in 2008 is primarily attributable to lower service revenues and sales which did not allow Roto-Rooter to cover as much of its fixed overhead costs, as well as higher medical and casualty insurance expense caused by an increase in claims experience.

SG&A for the first six months of 2008 were \$89.0 million, a decrease of \$5.1 million (5.4%) versus the first six months of 2007. The decrease is largely due to the \$7.0 million LTIP grant made in May 2007. There was no such LTIP grant made in 2008.

Interest expense, substantially all of which is incurred at Corporate, declined from \$7.1 million in the first six months of 2007 to \$3.0 million in the first six months of 2008. This decline is due to the refinancing transactions in May 2007. Additionally, the loss on extinguishment of debt in 2007 is the result of the May 2007 refinancing transactions.

Other income-net decreased from \$3.1 million in the first six months of 2007 to a loss of \$303,000 in the first six months of 2008. The decrease is attributable mainly to market losses from investments held in our deferred compensation benefit plans and lower interest income.

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Our effective income tax rate was 38.5% for the first six months of 2008 as compared to 38.6% for the same period of 2007. Net income for both periods included the following after-tax special items/adjustments that

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(increased)/reduced after-tax earnings (in thousands):

	Six Months Ended June 30,	
	2008	2007
Stock option expense	\$1,894	\$ 941
Unreserved prior year insurance claim	358	-
Legal expenses of OIG investigation	26	87
Tax credits related to prior years	(322)	-
Loss on extinguishment of debt	-	8,726
Long-term incentive compensation award	-	4,427
Gain on sale of Florida call center	-	(724)
Other	-	(296)
	\$1,956	\$13,161
	\$1,956	\$13,161

Six months ended June 30, 2008 versus 2007 - Segment Results

The change in after-tax earnings for the first six months of 2008 versus the first six months of 2007 is due to (in thousands):

	Net Income Increase/(Decrease)	
	Amount	Percent
VITAS	\$ (1,522)	-5.2%
Roto-Rooter	(2,509)	-12.5%
Corporate	12,447	53.0%
	\$ 8,416	32.8%
	\$ 8,416	32.8%

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, 2008 AND 2007
(unaudited)

OPERATING STATISTICS	Three Months Ended June 30,		Six Month
	2008	2007	2008
Net revenue			
Homecare	\$ 144,726	\$ 134,794	\$ 286,
Inpatient	24,371	22,745	50,
Continuous care	29,951	28,162	60,
	199,048	185,701	397,
Total before Medicare cap allowance			
Medicare cap allowance	-	-	
	-	-	

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Total	\$ 199,048	\$ 185,701	\$ 397,
=====			
Net revenue as a percent of total before Medicare cap allowance			
Homecare	72.8%	72.6%	7
Inpatient	12.2	12.2	1
Continuous care	15.0	15.2	1

Total before Medicare cap allowance	100.0	100.0	10
Medicare cap allowance	-	-	

Total	100.0%	100.0%	10
=====			
Average daily census ("ADC") (days)			
Homecare	7,347	6,915	7,
Nursing home	3,570	3,574	3,

Routine homecare	10,917	10,489	10,
Inpatient	422	413	
Continuous care	507	504	

Total	11,846	11,406	11,
=====			
Total Admissions	13,956	13,658	29,
Total Discharges	13,707	13,359	28,
Average length of stay (days)	73.2	76.6	7
Median length of stay (days)	13.0	13.0	1
ADC by major diagnosis			
Neurological	32.1%	33.0%	3
Cancer	20.0	19.7	2
Cardio	12.9	14.6	1
Respiratory	6.7	6.9	
Other	28.3	25.8	2

Total	100.0%	100.0%	10
=====			
Admissions by major diagnosis			
Neurological	17.7%	18.0%	1
Cancer	35.7	35.9	3
Cardio	12.0	12.9	1
Respiratory	7.9	7.7	
Other	26.7	25.5	2

Total	100.0%	100.0%	10
=====			
Direct patient care margins			
Routine homecare	51.5%	51.1%	5
Inpatient	17.8	18.9	1
Continuous care	17.6	17.7	1
Homecare margin drivers (dollars per patient day)			
Labor costs	\$ 49.72	\$ 48.96	\$ 50
Drug costs	7.74	7.82	7
Home medical equipment	6.20	5.78	6
Medical supplies	2.32	2.11	2
Inpatient margin drivers (dollars per patient day)			
Labor costs	\$ 261.79	\$ 262.37	\$ 264
Continuous care margin drivers (dollars per patient day)			
Labor costs	\$ 513.89	\$ 484.13	\$ 511
Bad debt expense as a percent of revenues	1.0%	0.9%	
Accounts receivable --			

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days of revenue outstanding

45.3

37.5

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VITAS has 5 large (greater than 450 ADC), 17 medium (greater than 200 but less than 450 ADC) and 17 small (less than 200 ADC) hospice programs. There are two programs continuing at June 30, 2008 with Medicare reimbursement less than 10% for the 2008 measurement period.

Direct patient care margins exclude indirect patient care and administrative costs, as well as other non-recurring items. Medicare reimbursement limitation.

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Recent Accounting Statements

In June 2008, the EITF reached a consensus on EITF Issue No. 07-5, "Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity's Own Stock". The consensus provides additional guidance when determining whether an option or warrant on an entity's own shares are eligible for the equity classification provided for in EITF 00-19. The consensus is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the impact of this consensus on our outstanding options and warrants issued in connection with our 2007 convertible debt transaction.

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. This will create a discount at inception to be recorded in equity. The debt portion is to be accreted to its face value, through interest expense, over the life of the instrument using the effective interest method. This will result in higher interest expense over the life of the instrument and an increase in equity at the inception of the instrument. Debt issuance costs are also to be allocated between the debt and equity components using a rationale method. Finally, the FSP requires that the Company value any embedded features of the instrument, other than the conversion option, as a part of the liability. The new standard is effective for all fiscal years (and interim periods) beginning after December 15, 2008. As such, we will adopt the new standard on January 1, 2009. The FSP is to be applied retrospectively. Upon adoption, our preliminary estimate is that our \$200 million, 1.875% Convertible Debentures issued in May 2007 will have a discount of between \$50 million and \$60 million.

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 statement will be effective 60 days after the SEC approves the Public Company Accounting and Oversight Board's related amendments. We believe that SFAS 162 will have no impact on our existing accounting methods.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 141(R) "Business Combinations (revised 2007)" ("SFAS 141(R)"), which changes certain aspects of the accounting for business combinations. This Statement retains the fundamental requirements in Statement No. 141 that the

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purchase method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141(R) modifies existing accounting guidance in the areas of deal and restructuring costs, acquired contingencies, contingent consideration, in-process research and development, accounting for subsequent tax adjustments and assessing the valuation date. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. There will be no impact on our financial statements as a result of the adoption of SFAS 141(R); however our accounting for all business combinations after adoption will comply with the new standard.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 160 "Non-controlling Interests in Consolidated Financial Statements - an amendment of ARB No. 51" ("SFAS 160"), which requires ownership interests in subsidiaries held by others to be clearly identified, labeled and presented in the consolidated balance sheet within equity but separate from the parent company's equity. SFAS 160 also affects the accounting requirements when the parent company either purchases a higher ownership interest or deconsolidates the equity investment. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. We currently do not have non-controlling interests in our consolidated financial statements.

Safe Harbor Statement under the Private Securities Litigation Reform Act of

1995 Regarding Forward-Looking Information

In addition to historical information, this report contains forward-looking statements and performance trends that are based upon assumptions subject to certain known and unknown risks, uncertainties, contingencies and other factors. Variances in any or all of the risks, uncertainties, contingencies, and other factors from our assumptions could cause actual results to differ materially from these forward-looking statements and trends. Our ability to deal with the unknown outcomes of these events, many of which are beyond our control, may affect the reliability of projections and other financial matters.

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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, 2008, we had \$28.0 million of variable rate debt outstanding. A 1% change in the interest rate on our variable interest rate borrowings would have a \$280,360 full-year impact on our interest expense. At June 30, 2008, the fair value of our Senior Convertible Notes approximates \$151.5 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

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that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

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

The following table shows the activity related to our share repurchase programs for the six months ended June 30, 2008:

	Total Number of Shares Repurchased	Weighted Average Price Paid Per Share	Cumulative Shares Repurchased Under the Program	Dollar A Remaini Under The Pro
<u>April 2007 Program</u>				
January 1 through January 31, 2008	-	\$ -	1,293,250	\$65,0
February 1 through February 29, 2008	300,000	\$ 49.19	1,593,250	\$50,2
March 1 through March 31, 2008	-	\$ -	1,593,250	\$50,2
First Quarter Total	300,000	\$ 49.19		
<u>April 2008 Program</u>				
April 1 through April 30, 2008	-	\$ -	1,593,250	\$50,2
May 1 through May 31, 2008	382,629	\$ 34.66	1,975,879	\$93,0
June 1 through June 30, 2008	447,068	\$ 36.15	2,422,947	\$76,8
Second Quarter Total	829,697	\$ 35.46		

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

A. Chemed Corporation held its annual meeting of stockholders on May 19, 2008.

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

Edward L. Hutton	Thomas C. Hutton	Timothy S. O'Toole
Kevin J. McNamara	Walter L. Krebs	Donald E. Saunders
Joel F. Gemunder	Sandra E. Laney	George J. Walsh III
Patrick P. Grace	Andrea R. Lindell	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 2008: 22,578,802.072 votes were cast in favor of the proposal, 189,943.069 votes were cast against it, 33,427.196 votes abstained, and there were no broker non-votes.

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

	For	Withheld
Edward L. Hutton	22,147,906.116	654,266.241

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Kevin J. McNamara	22,238,365.813	563,806.544
Joel F. Gemunder	22,285,398.695	516,773.662
Patrick P. Grace	22,416,033.688	386,138.669
Thomas C. Hutton	22,161,084.898	641,087.459
Walter L. Krebs	22,451,963.771	350,208.586
Sandra E. Laney	22,143,304.891	658,867.466
Andrea R. Lindell	22,474,147.083	328,025.274
Timothy S. O'Toole	21,749,464.105	1,052,708.252
Donald E. Saunders	22,446,378.496	355,793.861
George J. Walsh III	21,996,517.267	805,655.090
Frank E. Wood	22,457,556.593	344,615.764

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.

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SIGNATURES

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

Chemed Corporation

(Registrant)

Dated: July 30, 2008

By: Kevin J. McNamara

Kevin J. McNamara
(President and Chief Executive Officer)

Dated: July 30, 2008

By: David P. Williams

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

Dated: July 30, 2008

By: Arthur V. Tucker, Jr.

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