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

FORM 10-K

ANNUAL REPORT
PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

☑ **For the fiscal year ended December 31, 2010**

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

For the Transition Period from ________ to ___________

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)	(I.R.S. Employer Identification Number)
2600 Chemed Center, 255 East Fifth Street, Cincinnati, Ohio	45202-4726
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of each exchange on which registered
Capital Stock — Par Value $1 Per Share	New York Stock Exchange

Securities registered pursuant to Section 12(b) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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 period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, if definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ☐ No ☑

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer ☑	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

Yes ☐ No ☑

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the average bid and asked price of said stock on the New York Stock Exchange — Composite Transaction Listing on June 30, 2010 ($54.96 per share), was $1,221,507,160.

At February 15, 2011, 21,124,973 shares of Chemed Capital Stock (par value $1 per share) were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Where Incorporated
2010 Annual Report to Stockholders (specified portions)	Parts I, II, and IV
Proxy Statement for Annual Meeting to be held May 16, 2011	Part III

CHEMED CORPORATION
2010 FORM 10-K ANNUAL REPORT

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Item 1. Business

General

The Company was incorporated in Delaware in 1970 as a subsidiary of W. R. Grace & Co. and succeeded to the business of W. R. Grace & Co.'s Specialty Products Group as of April 30, 1971 and remained a subsidiary of W. R. Grace & Co. until March 10, 1982. As used herein, "Company" refers to Chemed Corporation, and its subsidiaries and "Grace" refers to W. R. Grace & Co. and its subsidiaries.

On March 10, 1982, the Company transferred to Dearborn Chemical Company, a wholly owned subsidiary of the Company, the business and assets of the Company's Dearborn Group, including the stock of certain subsidiaries within the Dearborn Group, plus $185 million in cash, and Dearborn Chemical Company assumed the Dearborn Group's liabilities. Thereafter, on March 10, 1982 the Company transferred all of the stock of Dearborn Chemical Company to Grace in exchange for 33,481,604 shares of the capital stock of the Company owned by Grace with the result that Grace no longer has any ownership interest in the Company.

On December 31, 1986, the Company completed the sale of substantially all of the business and assets of Vestal Laboratories, Inc., a wholly owned subsidiary. The Company received cash payments aggregating approximately $67.4 million over the four-year period following the closing, the substantial portion of which was received on December 31, 1986.

On April 2, 1991, the Company completed the sale of DuBois Chemicals, Inc. ("DuBois"), a wholly owned subsidiary, to the Diversey Corporation ("Diversey"), then a subsidiary of The Molson Companies Ltd. Under terms of the sale, Diversey agreed to pay the Company net cash payments aggregating $223.4 million, including deferred payments aggregating $32.4 million.

On December 21, 1992, the Company acquired The Veratex Corporation and related businesses ("Veratex Group") from Omnicare, Inc. The purchase price was $62.1 million in cash paid at closing, plus a post-closing payment of $1.5 million (paid in April 1993) based on the net assets of Veratex.

Effective January 1, 1994, the Company acquired all the capital stock of Patient Care, Inc. ("Patient Care"), for cash payments aggregating $20.6 million, plus 35,000 shares of the Company's Capital Stock. An additional cash payment of $1.0 million was made on March 31, 1996 and another payment of $1.0 million was made on March 31, 1997.

In July 1995, the Company's Omnia Group (formerly Veratex Group) completed the sale of the business and assets of its Veratex Retail division to Henry Schein, Inc. ("HSI") for $10 million in cash plus a $4.1 million note for which payment was received in December 1995.

Effective September 17, 1996 the Company completed a merger of a subsidiary of the Company, Chemed Acquisition Corp., and Roto-Rooter, Inc. pursuant to a Tender Offer commenced on August 8, 1996 to acquire any and all of the outstanding shares of Common Stock of Roto-Rooter, Inc. for $41.00 per share in cash.

On September 24, 1997 the Company completed the sale of its wholly owned business comprising the Omnia Group to Banta Corporation for $50 million in cash and $2.3 million in deferred payments.

Effective September 30,1997, the Company completed a merger between its 81-percent-owned subsidiary, National Sanitary Supply Company, and a wholly owned subsidiary of Unisource Worldwide, Inc. for $21.00 per share, with total payments of $138.3 million.

Effective October 11, 2002, the Company sold its Patient Care subsidiary ("Patient Care") to an investor group that included Schroder Ventures Life Sciences Group, Oak Investment Partners, Prospect Partners and Salix

Ventures. The cash proceeds to the Company totaled $57.5 million, of which $5.0 million was placed in escrow pending settlement of Patient Care's receivables with third-party payers. Of this amount, $2.5 million was distributed as of October 2003, $1.7 million was distributed as of November 2004 and the remainder was distributed as of October 2006.

Effective February 24, 2004, the Company completed a merger of its wholly owned indirect subsidiary, Marlin Merger Corp., and Vitas Healthcare Corporation. Under the terms of the merger agreement, Vitas stockholders received cash of $30.00 per share. The transaction, including the refinancing of existing Vitas debt and other payments made in connection with the merger, totaled approximately $415 million in cash.

On December 22, 2004, the Board of Directors authorized the discontinuance of the operations of the Company's Service America segment, through an asset sale to the employees of Service America. The acquiring corporation purchased a substantial majority of Service America's assets in exchange for assuming substantially all of Service America's liabilities in May 2005. Included in the assets acquired was a receivable from the Company for approximately $4.7 million. The Company paid $1 million of the receivable upon closing and the remainder was paid over the following year in 11 equal monthly installments.

During 2010 the Company conducted its business operations in two segments: Vitas Group ("Vitas") and the Roto-Rooter Group ("Roto-Rooter").

Forward Looking Statements

This Annual Report contains or incorporates by reference certain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Company intends such statements to be subject to the safe harbors created by that legislation. Such statements involve risks and uncertainties that could cause actual results of operations to differ materially from these forward looking statements.

Financial Information about Industry Segments

The required segment and geographic data for the Company's continuing operations (as described below) for three years ended December 31, 2008, 2009 and 2010 are shown in Note 5 of the Notes to Consolidated Financial Statements on pages 17-18 of the 2010 Annual Report to Stockholders and are incorporated herein by reference.

Description of Business by Segment

The information called for by this item is included within Note 5 of the Notes to Consolidated Financial Statements appearing on pages 17-18 of the 2010 Annual Report to Stockholders is incorporated herein by reference.

Product and Market Development

Each segment of the Company's business engages in a continuing program for the development and marketing of new services and products. While new products and services and new market development are important factors for the growth of each active segment of the Company's business, the Company does not expect that any new products and services or marketing effort, including those in the development stage, will require the investment of a material amount of the Company's assets.

Raw Materials

The principal raw materials needed for the Company's manufacturing operations are purchased from United States sources. Product sales from goods manufactured by Roto-Rooter represent less than 3% of Chemed's total service revenues and sales. No segment of the Company experienced any material raw material shortages during 2010, although such shortages may occur in the future. Products manufactured and sold by the Company's Roto-Rooter segment generally may be reformulated to avoid the adverse impact of specific raw material shortage.

Patents, Service Marks and Licenses

The Roto-Rooter® trademarks and service marks have been used and advertised since 1935 by Roto-Rooter Corporation, a wholly owned indirect subsidiary of the Company. The Roto-Rooter® marks are among the most highly recognized trademarks and service marks in the United States. The Company considers the Roto-Rooter® marks to be a valuable asset and a significant factor in the marketing of Roto-Rooter's franchises, products and services and the products and services provided by its franchises.

"Vitas" and "Innovative Hospice Care" are trademarks and servicemarks of Vitas Healthcare Corporation. The Company and its subsidiaries also own certain trade secrets including training manuals, cost information, customer information and software source codes.

Competition

Roto-Rooter

All aspects of the sewer, drain, and pipe cleaning and plumbing repair businesses are highly competitive. Competition is, however, fragmented in most markets with local and regional firms providing the primary competition. The principal methods of competition are advertising, range of services provided, name recognition, emergency-service availability, speed and quality of customer service, service guarantees, and pricing.

No individual customer or market group is critical to the total sales of this segment.

Vitas

Hospice care in the United States is competitive. Because programs for hospice services are generally uniform, Vitas competes primarily on the basis of its ability to deliver quality, responsive services. Vitas is one of the nation's largest provider of hospice services in a market dominated primarily by small, non-profit, community-based hospices. Approximately 49% of all hospices are not-for-profit. Because the hospice care market is highly fragmented, Vitas competes with a large number of organizations.

Vitas also competes with a number of national and regional hospice providers, including Gentiva Health Services, Inc., hospitals, nursing homes, home health agencies and other health care providers. Many providers offer home care to patients who are terminally ill, and some actively market palliative care and hospice-like programs. In addition, various health care companies have diversified into the hospice market. Some of these health care companies have greater financial resources than Vitas.

Relatively few barriers to entry exist in the majority of markets served by Vitas. Accordingly, other companies that are not currently providing hospice care may enter these markets and expand the variety of services they offer to include hospice.

Research and Development

The Company engages in a continuous program directed toward the development of new services, products and processes, the improvement of existing services, products and processes, and the development of new and different uses of existing products. The research and development expenditures from continuing operations have not been nor are they expected to be material.

Government Regulations

Roto-Rooter

Roto-Rooter's franchising activities are subject to various federal and state franchising laws and regulations, including the rules and regulations of the Federal Trade Commission (the "FTC") regarding the offering or sale of franchises. The rules and regulations of the FTC require that Roto-Rooter provide all the prospective franchises with specific information regarding the franchise program and Roto-Rooter in the form of a detailed franchise offering circular. In addition, a number of states require Roto-Rooter to register its franchise offering prior to offering or selling franchises in the state. Various state laws also provide for certain rights in favor of franchisees, including (i) limitations on the franchisor's ability to terminate a franchise except for good cause, (ii) restrictions on the franchisor's ability to deny renewal of a franchise, (iii) circumstances under which the franchisor may be required to purchase certain inventory of franchisees when a franchise is terminated or not renewed in violation of such laws, and (iv) provisions relating to arbitration. Roto-Rooter's ability to engage in the plumbing repair business is also subject to certain limitations and restrictions imposed by state and local licensing laws and regulations.

Vitas

General. The health care industry and Vitas' hospice programs are subject to extensive federal and state regulation. Vitas' hospices are licensed as required under state law as either hospices or home health agencies, or both, depending on the regulatory requirements of each particular state. In addition, Vitas' hospices are required to meet certain conditions of participation to be eligible to receive payments as hospices under Medicare and Medicaid programs. All of Vitas' hospices, other than those currently in development, are certified for participation as hospices in the Medicare program, and are also eligible to receive payments as hospices from the Medicaid program in each of the states in which Vitas operates. Vitas' hospices are subject to periodic survey by governmental authorities or private accrediting entities to assure compliance with state licensing, certification and accreditation requirements.

Medicare Conditions of Participation. Federal regulations require that a hospice program satisfy certain Conditions Of Participation ("COP") to be certified and receive Medicare payment for the services it provides. Failure to comply with the conditions of participation may result in sanctions, up to and including decertification from the Medicare program. See "*Surveys and Audits*" below.

The Medicare COP for hospice programs include the following:

Governing Body. Each hospice must have a governing body that assumes full responsibility for the policies and the overall operation of the hospice and for ensuring that all services are provided in a manner consistent with accepted standards of practice. The governing body must designate one individual who is responsible for the day-to-day management of the hospice.

Medical Director. Each hospice must have a medical director who is a physician and who assumes responsibility for overseeing the medical component of the hospice's patient care program.

Direct Provision of Core Services. Medicare limits those services for which the hospice may use individual independent contractors or contract agencies to provide care to patients. Specifically, substantially all nursing, social work, and counseling services must be provided directly by hospice employees meeting specific educational and professional standards. During periods of peak patient loads or under extraordinary circumstances, the hospice may be permitted to use contract workers, but the hospice must agree in writing to maintain professional, financial and administrative responsibility for the services provided by those individuals or entities.

Professional Management of Non-Core Services. A hospice may arrange to have non-core services such as therapy services, home health aide services, medical supplies or drugs provided by a non-employee or outside entity.

If the hospice elects to use an independent contractor to provide non-core services, however, the hospice must retain professional management responsibility for the arranged services and ensure that the services are furnished in a safe and effective manner by qualified personnel, and in accordance with the patient's plan of care.

Plan of Care. The patient's attending physician, the medical director or the designated hospice physician, and interdisciplinary team must establish an individualized written plan of care prior to providing care to any hospice patient. The plan must assess the patient's needs and identify services to be provided to meet those needs and must be reviewed and updated at specified intervals.

Continuation of Care. A hospice may not discontinue or reduce care provided to a Medicare beneficiary if the individual becomes unable to pay for that care.

Informed Consent. The hospice must obtain the informed consent of the hospice patient, or the patient's legal representative, that specifies the type of care services that may be provided as hospice care.

Training. A hospice must provide ongoing training for its employees.

Quality Assurance. A hospice must conduct ongoing and comprehensive self-assessments of the quality and appropriateness of care it provides and that its contractors provide under arrangements to hospice patients.

Interdisciplinary Team. A hospice must designate an interdisciplinary team to provide or supervise hospice care services. The interdisciplinary team develops and updates plans of care, and establishes policies governing the day-to-day provision of hospice services. The team must include at least a physician, registered nurse, social worker and spiritual or other counselor. A registered nurse must be designated to coordinate the plan of care.

Volunteers. Hospice programs are required to recruit and train volunteers to provide patient care services or administrative services. Volunteer services must be provided in an amount equal to at least five percent of the total patient care hours provided by all paid hospice employees and contract staff.

Licensure. Each hospice and all hospice personnel must be licensed, certified or registered in accordance with applicable federal, state and local laws and regulations.

Central Clinical Records. Hospice programs must maintain clinical records for each hospice patient that are organized in such a way that they may be easily retrieved. The clinical records must be complete and accurate and protected against loss, destruction, and unauthorized use.

Surveys and Audits. Hospice programs are subject to periodic survey by federal and state regulatory authorities and private accrediting entities to ensure compliance with applicable licensing and certification requirements and accreditation standards. Regulators conduct periodic surveys of hospice programs and provide reports containing statements of deficiencies for alleged failure to comply with various regulatory requirements. Survey reports and statements of deficiencies are common in the healthcare industry. In most cases, the hospice program and regulatory authorities will agree upon any steps to be taken to bring the hospice into compliance with applicable regulatory requirements. In some cases, however, a state or federal regulatory authority may take a number of adverse actions against a hospice program, including the imposition of fines, temporary suspension of admission of new patients to the hospice's service or, in extreme circumstances, decertification from participation in the Medicare or Medicaid programs or revocation of the hospice's license.

From time to time Vitas receives survey reports containing statements of deficiencies. Vitas reviews such reports and takes appropriate corrective action. Vitas believes that its hospices are in material compliance with applicable licensure and certification requirements. If a Vitas hospice were found to be out of compliance and actions were taken against a Vitas hospice, they could materially adversely affect the hospice's ability to continue to operate, to provide certain services and to participate in the Medicare and Medicaid programs, which could materially adversely affect Vitas.

Billing Audits/ Claims Reviews. The Medicare program and its fiscal intermediaries and other payors periodically conduct pre-payment or post-payment reviews and other reviews and audits of health care claims, including hospice claims. There is pressure from state and federal governments and other payors to scrutinize health care claims to determine their validity and appropriateness. In order to conduct these reviews, the payor requests documentation from Vitas and then reviews that documentation to determine compliance with applicable rules and regulations, including the eligibility of patients to receive hospice benefits, the appropriateness of the care provided to those patients and the documentation of that care. During the past several years, Vitas' claims have been subject to review and audit. We make appropriate provisions in our accounting records to reduce our revenue for anticipated denial of payment related to these audits and reviews. We believe our hospice programs comply with all payor requirements at the time of billing. However, we cannot predict whether future billing reviews or similar audits by payors will result in material denials or reductions in revenue.

Certificate of Need Laws and Other Restrictions. Some states, including Florida, have certificate of need or similar health planning laws that apply to hospice care providers. These states may require some form of state agency review or approval prior to opening a new hospice program, to adding or expanding hospice services, to undertaking significant capital expenditures or under other specified circumstances. Approval under these certificate of need laws is generally conditioned on the showing of a demonstrable need for services in the community. Vitas may seek to develop, acquire or expand hospice programs in states having certificate of need laws. To the extent that state agencies require Vitas to obtain a certificate of need or other similar approvals to expand services at existing hospice programs or to make acquisitions or develop hospice programs in new or existing geographic markets, Vitas' plans could be adversely affected by a failure to obtain such certificate or approval. In addition, competitors may seek administratively or judicially to challenge such an approval or proposed approval by the state agency. Such a challenge, whether or not ultimately successful, could adversely affect Vitas.

Limitations on For-Profit Ownership. A few states have laws that restrict the development and expansion of for-profit hospice programs. For example, in New York, a hospice generally cannot be owned by a corporation that has another corporation as a stockholder. These types of restrictions could affect Vitas' ability to expand into New York, or in other jurisdictions with similar restrictions.

Limits on the Acquisition or Conversion of Non-Profit Health Care Organizations. A number of states have enacted laws that restrict the ability of for-profit entities to acquire or otherwise assume the operations of a non-profit health care provider. Some states may require government review, public hearings, and/or government approval of transactions in which a for-profit entity proposes to purchase certain non-profit healthcare organizations. Heightened scrutiny of these transactions may significantly increase the costs associated with future acquisitions of non-profit hospice programs in some states, otherwise increase the difficulty in completing those acquisitions or prevent them entirely. Vitas cannot assure that it will not encounter regulatory or governmental obstacles in connection with any proposed acquisition of non-profit hospice programs in the future.

Professional Licensure and Participation Agreements. Many hospice employees are subject to federal and state laws and regulations governing the ethics and practice of their profession, including physicians, physical, speech and occupational therapists, social workers, home health aides, pharmacists and nurses. In addition, those professionals who are eligible to participate in the Medicare, Medicaid or other federal health care programs as individuals must not have been excluded from participation in those programs at any time.

State Licensure of Hospice. Each of Vitas' hospices must be licensed in the state in which it operates. State licensure rules and regulations require that Vitas' hospices maintain certain standards and meet certain requirements, which may vary from state to state. Vitas believes that its hospices are in material compliance with applicable licensure requirements. If a Vitas hospice were found to be out of compliance and actions were taken against a Vitas hospice, they could materially adversely affect the hospice's ability to continue to operate, to provide certain services and to participate in the Medicare and Medicaid programs, which could materially adversely affect Vitas.

Overview of Government Payments—General. Over 90% of Vitas' revenue consisted of payments from the Medicare and Medicaid programs. Such payments are made primarily on a "per diem" basis. Under the per diem reimbursement methodology, Vitas is essentially at risk for the cost of eligible services provided to hospice patients. Profitability is therefore largely dependent upon Vitas' ability to manage the costs of providing hospice services to patients. Increases in operating costs, such as labor and supply costs that are subject to inflation and other increases, without a compensating increase in Medicare and Medicaid rates, could have a material adverse effect on Vitas' business in the future. The Medicare and Medicaid programs are increasing pressure to control health care costs and to decrease or limit increases in reimbursement rates for health care services. As with most government programs, the Medicare and Medicaid programs are subject to statutory and regulatory changes, possible retroactive and prospective rate and payment adjustments, administrative rulings, freezes and funding reductions, all of which may adversely affect the level of program payments and could have a material adverse effect on Vitas' business. Vitas' levels of revenues and profitability are subject to the effect of legislative and regulatory changes, including possible reductions in coverage or payment rates, or changes in methods of payment, by the Medicare and Medicaid programs.

Overview of Government Payments — Medicare

Medicare Eligibility Criteria. To receive Medicare payment for hospice services, the hospice medical director and, if the patient has one, the patient's attending physician, must certify and describe in a brief narrative that the patient has a life expectancy of six months or less if the illness runs its normal course. This determination is made based on the physician's clinical judgement. Due to the uncertainty of such prognoses, however, it is likely and expected that some percentage of hospice patients will not die within six months of entering a hospice program. The Medicare program (among other third-party payers) recognizes that terminal illnesses often do not follow an entirely predictable course, and therefore the hospice benefit remains available to beneficiaries so long as the hospice physician or the patient's attending physician continues to certify that the patient's life expectancy remains six months or less. Specifically, the Medicare hospice benefit provides for two initial 90-day benefit periods followed by an unlimited number of 60-day periods. In order to qualify for hospice care, a Medicare beneficiary must elect hospice care and waive any right to other Medicare benefits related to his or her terminal illness. A Medicare beneficiary may revoke his or her election of the Medicare hospice benefit at any time and resume receiving regular Medicare benefits. The patient may elect the hospice benefit again at a later date so long as he or she remains eligible. Increased regulatory scrutiny of compliance with the Medicare six-month eligibility rule has impacted the hospice industry. The Medicare program, however, has reaffirmed that Medicare hospice beneficiaries are not limited to six months of coverage and that there is no limit on how long a Medicare beneficiary can continue to receive hospice benefits and services, provided that the beneficiary continues to meet the eligibility criteria under the Medicare hospice program.

Levels of Care. Medicare pays for hospice services on a prospective payment system basis under which Vitas receives an established payment rate for each day that it provides hospice services to a Medicare beneficiary. These rates are subject to annual adjustments for inflation and vary based upon the geographic location where the services are provided. The rate Vitas receives depends on which of the following four levels of care is being provided to the beneficiary:

Routine Home Care. The routine home care rate is paid for each day that a patient is in a hospice program and is not receiving one of the other categories of hospice care. The routine home care rate does not vary based upon the volume or intensity of services provided by the hospice program.

General Inpatient Care. The general inpatient care rate is paid when a patient requires inpatient services for a short period for pain control or symptom management which cannot be managed in other settings.

General inpatient care services must be provided in a Medicare or Medicaid certified hospital or long-term care facility or at a freestanding inpatient hospice facility with the required registered nurse staffing.

Continuous Home Care. Continuous home care, which Vitas refers to as “Intensive Comfort Care”, is provided to patients while at home, during periods of crisis when intensive monitoring and care, primarily nursing care, is required in order to achieve palliation or management of acute medical symptoms. Continuous home care requires a minimum of 8 hours of care within a 24-hour day, which begins and ends at midnight. The care must be predominantly nursing care provided by either a registered nurse or licensed practical nurse. While the published Medicare continuous home care rates are daily rates, Medicare actually pays for continuous home care in fifteen minute increments. This fifteen minute rate is calculated by dividing the daily rate by 96.

Respite Care. Respite care permits a hospice patient to receive services on an inpatient basis for a short period of time in order to provide relief for the patient’s family or other caregivers from the demands of caring for the patient. A hospice can receive payment for respite care for a given patient for up to five consecutive days at a time, after which respite care is reimbursed at the routine home care rate.

Medicare Payment for Physician Services. Payment for direct patient care physician services delivered by hospice physicians is billed separately by the hospice to the Medicare fiscal intermediary and paid at the lesser of the actual charge or the Medicare allowable charge for these services. This payment is in addition to the per diem rates Vitas receives for hospice care. Payment for hospice physicians’ administrative and general supervisory activities is included in the daily rates discussed above. Payments for attending physician professional services (other than services furnished by hospice physicians) are not paid to the hospice, but rather are paid directly to the attending physician by the Medicare fiscal intermediary. For fiscal 2010, 2% of Vitas’ net revenue was attributable to physician services.

Medicare Limits on Hospice Care Payments. Medicare payments for hospice services are subject to two additional limits or “caps”. Each of Vitas’ hospice programs is separately subject to both of these “caps”. Both of these “caps” are determined on an annual basis for the period running from November 1 through October 31 of each year.

First, under a Medicare rule known as the “80-20” rule applicable to the Medicare inpatient services, if the number of inpatient care days furnished by a hospice to Medicare beneficiaries exceeds 20% of the total days of hospice care furnished by such hospice to Medicare beneficiaries, Medicare payments to the hospice for inpatient care days exceeding the cap are reduced to the routine home care rate. Vitas has never exceeded the inpatient cap.

Second, Medicare payments to a hospice are also subject to a separate cap based on overall average payments per admission. Any payments exceeding this overall hospice cap must be refunded by the hospice. This cap was set at $23,874.98 per admission for the twelve-month period ended on October 31, 2010, and is adjusted annually to account for inflation. Vitas’ hospices may be subject to future payment reductions or recoupments as the result of this cap. As of December 31, 2010 we recorded a $62,000 liability for 2010 related to one program. We recorded a cap liability in the fourth quarter of 2010 of $1.1 million for three programs for the first quarter of the 2011 Medicare cap year measurement period.

Medicare Managed Care Programs. The Medicare program has entered into contracts with managed care companies to provide managed care benefits to Medicare beneficiaries who elect to participate in managed care programs. These managed care programs are commonly referred to as Medicare HMOs, Medicare + Choice or Medicare risk products. Vitas provides hospice care to Medicare beneficiaries who participate in these managed care programs, and Vitas is paid for services provided to these beneficiaries in the same way and at the same rates as those of other Medicare beneficiaries who are not in a Medicare managed care program. Under current Medicare policy, Medicare pays the hospice directly for services provided to these managed care program participants and then reduces the standard per-member, per-month payment that the managed care program otherwise receives.

Overview of Government Payments — Medicaid

Medicaid Coverage and Reimbursements. State Medicaid programs are another source of Vitas' net patient revenue. Medicaid is a state-administered program financed by state funds and matching federal funds to provide medical assistance to the indigent and certain other eligible persons. In 1986, hospice services became an optional state Medicaid benefit. For those states that elect to provide a hospice benefit, the Medicaid program is required to pay the hospice at rates at least equal to the rates provided under Medicare and calculated using the same methodology. States maintain flexibility to establish their own hospice election procedures and to limit the number and duration of benefit periods for which they will pay for hospice services. Reimbursement from state Medicaid programs in 2010 accounted for 5% of Vitas' revenues.

Nursing Home Residents. For Vitas' patients who receive nursing home care under a state Medicaid program and who elect hospice care under Medicare or Medicaid, Vitas contracts with nursing homes for the nursing homes' provision of room and board services. In addition to the applicable Medicare or Medicaid hospice daily or hourly rate, the state generally must pay Vitas an amount equal to at least 95% of the Medicaid daily nursing home rate for room and board services furnished to the patient by the nursing home. Under Vitas' standard nursing home contracts, Vitas pays the nursing home for these room and board services at the Medicaid daily nursing home rate.

Adjustments to Medicare and Medicaid Payment Rates. Payment rates under the Medicare and Medicaid programs are adjusted annually based upon the Hospital Market Basket Index and the Consumer Price Index; however, the adjustments have historically been less than actual inflation. On October 1, 2007, the base rates increased by 3.3%. On October 1, 2008 the base rates increased by 2.5%. This rate increased by approximately 1% in February 2009. On October 1, 2009 the base rate increased by 1.4%. On October 1, 2010 the base rates increased by 1.8%. These base rates are further modified by the Hospice Wage Index to reflect local differences in wages according to the revised wage index. It is possible that there will be further modifications to the rate structure under which the Medicare or Medicaid programs pay for hospice care services. Any future reductions in the rate of increase in Medicare and Medicaid payments may have an adverse impact on Vitas' net patient service revenue and profitability.

Other Healthcare Regulations

Federal and State Anti-Kickback Laws and Safe Harbor Provisions . The federal Anti-Kickback Law makes it a felony to knowingly and willingly offer, pay, solicit or receive any form of remuneration in exchange for referring, recommending, arranging, purchasing, leasing or ordering items or services covered by a federal health care program including Medicare or Medicaid. The Anti-Kickback Law applies regardless of whether the remuneration is provided directly or indirectly, in cash or in kind. Although the Anti-Kickback statute does not prohibit all financial transactions or relationships that providers of healthcare items or services may have with each other, interpretations of the law have been very broad. Under current law, courts and federal regulatory authorities have stated that this law is violated if even one purpose (as opposed to the sole or primary purpose) of the arrangement is to induce referrals.

Violations of the Anti-Kickback Law carry potentially severe penalties including imprisonment of up to five years, criminal fines of up to $25,000 per act, civil money penalties of up to $50,000 per act, and additional damages of up to three times the amounts claimed or remuneration offered or paid. Federal law also authorizes exclusion from the Medicare and Medicaid programs for violations of the Anti-Kickback Law.

The Anti-Kickback Law contains several statutory exceptions to the broad prohibition. In addition, Congress authorized the Office of Inspector General ("OIG") to publish numerous "safe harbors" that exempt some practices from enforcement action under the Anti-Kickback Law and related laws. These statutory exceptions and regulatory safe harbors protect various bona fide employment relationships, contracts for the rental of space or equipment, personal service arrangements, and management contracts, among other things, provided that certain conditions set forth in the statute or regulations are satisfied. The safe harbor regulations, however, do not comprehensively describe all lawful relationships between healthcare providers and referral sources, and the failure of an arrangement to satisfy all of the requirements of a particular safe harbor does not mean that the arrangement is unlawful. Failure to comply with the safe harbor provisions, however, may mean that the arrangement will be subject to scrutiny.

Many states, including states where Vitas does business, have adopted similar prohibitions against payments that are intended to induce referrals of patients, regardless of the source of payment. Some of these state laws lack explicit “safe harbors” that may be available under federal law. Sanctions under these state anti-kickback laws may include civil money penalties, license suspension or revocation, exclusion from the Medicare or Medicaid programs, and criminal fines or imprisonment. Little precedent exists regarding the interpretation or enforcement of these statutes.

Vitas is required under the Medicare conditions of participation and some state licensing laws to contract with numerous healthcare providers and practitioners, including physicians, hospitals and nursing homes, and to arrange for these individuals or entities to provide services to Vitas’ patients. In addition, Vitas has contracts with other suppliers, including pharmacies, ambulance services and medical equipment companies. Some of these individuals or entities may refer, or be in a position to refer, patients to Vitas, and Vitas may refer, or be in a position to refer, patients to these individuals or entities. These arrangements may not qualify for a safe harbor. Vitas from time to time seeks guidance from regulatory counsel as to the changing and evolving interpretations and the potential applicability of these anti-kickback laws to its programs, and in response thereto, takes such actions as it deems appropriate. The Company generally believes that Vitas’ contracts and arrangements with providers, practitioners and suppliers do not violate applicable anti-kickback laws. However, the Company cannot assure that such laws will ultimately be interpreted in a manner consistent with Vitas’ practices.

HIPAA Anti-Fraud Provisions. HIPAA includes several revisions to existing health care fraud laws by permitting the imposition of civil monetary penalties in cases involving violations of the anti-kickback statute or contracting with excluded providers. In addition, HIPAA created new statutes making it a federal felony to engage in fraud, theft, embezzlement, or the making of false statements with respect to healthcare benefit programs, which include private, as well as government programs. In addition, federal enforcement officials have the ability to exclude from the Medicare and Medicaid programs any investors, officers and managing employees associated with business entities that have committed healthcare fraud, even if the investor, officer or employee had no actual knowledge of the fraud.

OIG Fraud Alerts, Advisory Opinions and Other Program Guidance . In 1976, Congress established the OIG to, among other things, identify and eliminate fraud, abuse and waste in HHS programs. To identify and resolve such problems, the OIG conducts audits, investigations and inspections across the country and issues public pronouncements identifying practices that may be subject to heightened scrutiny. In the last several years, there have been a number of hospice related audits and reviews conducted. These reviews and recommendations have included:

- Ensuring that Medicare hospice eligibility determinations are made in accordance with the Medicare regulations; and
- Revising the annual cap on hospice benefits to better reflect the cost of care provided.

From time to time, various federal and state agencies, such as HHS and the OIG, issue a variety of pronouncements, including fraud alerts, the OIG’s Annual Work Plan and other reports, identifying practices that may be subject to heightened governmental scrutiny. The Company cannot predict what, if any, changes may be implemented in coverage, reimbursement, or enforcement policies as a result of these OIG reviews and recommendations.

On April 7, 2005 the Company announced the Office of Inspector General ("OIG") for the Department of Health and Human Services served Vitas with civil subpoenas relating to Vitas' alleged failure to appropriately bill Medicare and Medicaid for hospice services. As part of this investigation, the OIG selected medical records for 320 past and current patients from Vitas' three largest programs for review. It also sought policies and procedures dating back to 1998 covering admissions, certifications, recertifications, and discharges. During the third quarter of 2005 and again in May 2006, the OIG requested additional information of the Company. 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 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. In August 2009, the OIG selected medical records for 59 past and current patients from a Texas program for review. 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. In February 2010, we received a companion request ("CID") to this from the State of Texas Attorney General, seeking related documents. In September 2010 we recived a second CID and a second administrative subpoena seeking related documents.

Federal False Claims Acts. The federal law includes several criminal and civil false claims provisions, which provide that knowingly submitting claims for items or services that were not provided as represented may result in the imposition of multiple damages, administrative civil money penalties, criminal fines, imprisonment, and/or exclusion from participation in federally funded healthcare programs, including Medicare and Medicaid. In addition, the OIG may impose extensive and costly corporate integrity requirements upon a healthcare provider that is the subject of a false claims judgement or settlement. These requirements may include the creation of a formal compliance program, the appointment of a government monitor, and the imposition of annual reporting requirements and audits conducted by an independent review organization to monitor compliance with the terms of the agreement and relevant laws and regulations.

The Civil False Claims Act prohibits the known filing of a false claim or the known use of false statements to obtain payments. Penalties for violations include fines ranging from $5,500 to $11,000, plus treble damages, for each claim filed. Provisions in the Civil False Claims Act also permit individuals to bring actions against individuals or businesses in the name of the government as so called "qui tam" relators. If a qui tam relator's claim is successful, he or she is entitled to share the government's recovery.

Both direct enforcement activity by the government and quit tam actions have increased significantly in recent years and have increased the risk that a healthcare company may have to defend a false claims action, pay fines or be excluded from the Medicare and/or Medicaid programs as a result of an investigation arising out of this type of an action. Because of the complexity of the government regulations applicable to the healthcare industry, the Company cannot assure that Vitas will not be the subject of other actions under the False Claims Act.

State False Claims Laws. Several states in which Vitas currently operates have adopted state false claims laws that mirror to some degree the federal false claims laws. While these statutes vary in scope and effect, the penalties for violating these false claims laws include administrative, civil and/or criminal fines and penalties, imprisonment, and the imposition of multiple damages.

The Stark Law and State Physician Self-Referral Laws. Section 1877 of the Social Security Act, commonly known as the "Stark Law", prohibits physicians from referring Medicare or Medicaid patients for "designated health services" to entities in which they hold an ownership or investment interest or with whom they have a compensation arrangement, subject to a number of statutory and regulatory exceptions. Penalties for violating the Stark Law are severe and include:

- Denial of payment;
- Civil monetary penalties of $15,000 per referral or $1,000,000 for “circumvention schemes;”
- Assessments equal to 200% of the dollar value of each such service provided; and
- Exclusion from the Medicare and Medicaid programs.

Hospice care itself is not specifically listed as a designated health service; however, certain services that Vitas provides, or in the future may provide, are among the services identified as designated health services for purposes of the self-referral laws. The Company cannot assure that future regulatory changes will not result in hospice services becoming subject to the Stark Law’s ownership, investment or compensation prohibitions in the future.

Many states where Vitas operates have laws similar to the Stark Law, but with broader effect because they apply regardless of the source of payment for care. Penalties similar to those listed above as well as the loss of state licensure may be imposed in the event of a violation of these state self-referral laws. Little precedent exists regarding the interpretation or enforcement of these statutes.

Civil Monetary Penalties. The Civil Monetary Penalties Statute provides that civil penalties ranging between $10,000 and $50,000 per claim or act may be imposed on any person or entity that knowingly submits improperly filed claims for federal health benefits or that offers or makes payment to induce a beneficiary or provider to reduce or limit the use of health care services or to use a particular provider or supplier. Civil monetary penalties may be imposed for violations of the anti-kickback statute and for the failure to return known overpayments, among other things.

Prohibition on Employing or Contracting with Excluded Providers. The Social Security Act and federal regulations state that individuals or entities that have been convicted of a criminal offense related to the delivery of an item or service under Medicare or Medicaid programs or that have been convicted, under state and federal law, of a criminal offense relating to neglect or abuse of residents in connection with the delivery of a healthcare item or service cannot participate in any federal health care programs, including Medicare and Medicaid. Additionally, individuals and entities convicted of fraud, that have had their licenses revoked or suspended, or that have failed to provide services of adequate quality also may be excluded from the Medicare and Medicaid programs. Federal regulations prohibit Medicare providers, including hospice programs, from submitting claims for items or services or their related costs if an excluded provider furnished those items or services. The OIG maintains a list of excluded persons and entities. Nonetheless, it is possible that Vitas might unknowingly bill for services provided by an excluded person or entity with whom it contracts. The penalty for contracting with an excluded provider may range from civil monetary penalties of $50,000 and damages of up to three times the amount of payment that was inappropriately received.

Corporate Practice of Medicine and Fee Splitting. Most states have laws that restrict or prohibit anyone other than a licensed physician, including business entities such as corporations, from employing physicians and/or prohibit payments or fee-splitting arrangements between physicians and corporations or unlicensed individuals. Penalties for violations of corporate practice of medicine and fee-splitting laws vary from state to state, but may include civil or criminal penalties, the restructuring or termination of the business arrangements between the physician and unlicensed individual or business entity, or even the loss of the physician’s license to practice medicine. These laws vary widely from state to state both in scope and origin (e.g. statute, regulation, Attorney General opinion, court ruling, agency policy) and in most instances have been subject to only limited interpretation by the courts or regulatory bodies.

Vitas employs or contracts with physicians to provide medical direction and patient care services to its patients. Vitas has made efforts in those states where certain contracting or fee arrangements are restricted or prohibited to structure those arrangements in compliance with the applicable laws and regulations. Despite these efforts, however, the Company cannot assure that agency officials charged with enforcing these laws will not interpret Vitas' contracts with employed or independent contractor physicians as violating the relevant laws or regulations. Future determinations or interpretations by individual states with corporate practice of medicine or fee splitting restrictions may force Vitas to restructure its arrangements with physicians in those locations.

Health Information Practices. There currently are numerous legislative and regulatory initiatives at both the state and federal levels that address patient privacy concerns. In particular, federal regulations issued under the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") require Vitas to protect the privacy and security of patients' individual health information. HIPAA does not automatically preempt applicable state laws and regulations concerning Vitas' use, disclosure and maintenance of patient health information, which means that Vitas is subject to a complex regulatory scheme that, in many instances, requires Vitas to comply with both federal and state laws and regulations.

In August 2000, HHS published final regulations establishing health care transaction standards, and code sets for the electronic transmission of health care information in connection with certain transactions, such as billing or health plan eligibility (the "Transactions Standard"). The Centers for Medicare and Medicaid Services ("CMS") is the division of HHS that is responsible for interpreting and enforcing the Transactions Standard. Failure to comply with the Transactions Standard may subject covered entities, including Vitas, to civil monetary penalties and possibly to criminal penalties. Vitas believes that it is in compliance with the Transactions Standard and developed an appropriate contingency plan as encouraged by CMS.

Additional Federal and State Regulation. Federal and state governments also regulate various aspects of the hospice industry. In particular, Vitas' operations are subject to federal and state health regulatory laws covering professional services, the dispensing of drugs and certain types of hospice activities. Some of Vitas' employees are subject to state laws and regulations governing the ethics and professional practice of medicine, respiratory therapy, pharmacy and nursing.

Compliance with Health Regulatory Laws. Vitas maintains an internal regulatory compliance review program and from time to time retains regulatory counsel for guidance on compliance matters. The Company cannot assure, however, that Vitas' practices, if reviewed, would be found to be in compliance with applicable health regulatory laws, as such laws ultimately may be interpreted, or that any non-compliance with such laws would not have a material adverse effect, including an effect on its brand reputation, on Vitas.

Environmental Matters

Roto-Rooter's operations are subject to various federal, state, and local laws and regulations regarding environmental matters and other aspects of the operation of a sewer and drain cleaning, HVAC and plumbing services business. For certain other activities, such as septic tank and grease trap pumping, Roto-Rooter is subject to state and local environmental health and sanitation regulations.

At December 31, 2010, the Company's accrual for its estimated liability for potential environmental cleanup and related costs arising from the sale of DuBois Chemicals Inc. ("DuBois") amounted to $1.7 million. Of this balance, $901,000 is included in other liabilities and $826,000 is included in other current liabilities. The Company is contingently liable for additional DuBois-related environmental cleanup and related costs up to a maximum of $14.9 million. On the basis of a continuing evaluation of the Company's potential liability, and in consultation with the Company's environmental attorney, management believes that it is not probable this additional liability will be paid. Accordingly, no provision for this contingent liability has been recorded. Although it is not presently possible to reliably project the timing of payments related to the Company's potential liability for environmental costs, management believes that any adjustments to its recorded liability will not materially adversely affect its financial position or results of operations.

The Company, to the best of its knowledge, is currently in compliance in all material respects with the environmental laws and regulations affecting its operations. Such environmental laws, regulations and enforcement proceedings have not required the Company to make material increases in or modifications to its capital expenditures and they have not had a material adverse effect on sales or net income. Capital expenditures for the purpose of complying with environmental laws and regulations during 2011 and 2012 with respect to continuing operations are not expected to be material in amount; there can be no assurance, however, that presently unforeseen legislative enforcement actions will not require additional expenditures.

Employees

On December 31, 2010, Chemed Corporation had a total of 13,058 employees.

Available Information

The Company's Internet address is www.chemed.com . The Company's Annual Report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are electronically available through the SEC (http://www.sec.gov) or the Company's website as soon as reasonably practicable after such reports are filed with, or furnished to, the SEC.

Annual reports, press releases, Board Committee charters, Code of Ethics, Corporate governance guidelines and other printed materials may be obtained from the website or from Chemed Investor Relations without charge by writing to 2600 Chemed Center, 255 East Fifth Street, Cincinnati, Ohio 45202 or by calling 800-2CHEMED or 513-762-6429.

Item 1A. Risk Factors

You should carefully consider the risks described below. They are not the only ones facing the Company. Other risks and uncertainties not currently known to us or that we deem to be immaterial may also materially and adversely affect our business, financial condition, or results of operations.

GENERAL

We have incurred debt to finance the operations of the Company.

The Company has debt service obligations that may restrict our operating flexibility. We cannot assure you that our cash flow from operations will be sufficient to service our debt, which may require us to borrow additional funds, or restructure or otherwise refinance our debt. In addition, the Company has the ability to expand its debt and borrowing capacity subject to various restrictions and covenants defined by its creditors. The interest rate the Company pays will fluctuate from time to time based upon a number of factors including current LIBOR rates and Company operating performance. Significant changes in these factors could result in a material change in the Company's interest expense.

Our indebtedness could have important consequences for our business. Among other things, our indebtedness may:

- Limit our ability to obtain additional financing;

- Limit our flexibility in planning for, or reacting to, changes in the markets in which we compete;
- Place us at a competitive disadvantage relative to our competitors with less indebtedness;
- Increase our exposure to interest rate increases due to variable interest rates on certain borrowings;
- Limit our ability to complete future acquisitions;
- Limit our ability to make capital expenditures;
- Render us more vulnerable to general adverse economic and industry conditions; and
- Require us to dedicate a substantial portion of our cash flow to service and repay our debt.

Servicing our indebtedness will require a significant amount of cash, and our ability to generate cash depends on many factors beyond our control.

Our ability to repay or to refinance our indebtedness and to pay interest on our indebtedness will depend on our operating performance, which may be affected by factors beyond our control. These factors could include operating difficulties, increased operating costs, our competitors' actions and regulatory developments. Our ability to meet our debt service and other obligations may depend in significant part on the extent to which we successfully implement our business strategy. We cannot assure you that we will be able to implement our strategy fully or that the anticipated results of our strategy will be realized. Current credit market conditions may make it difficult for us to obtain new financing or refinance our current debt on terms and conditions acceptable to us.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets, seek additional equity capital or restructure our debt. We cannot assure you that our cash flows and capital resources will be sufficient to make scheduled payments of principal and interest on our indebtedness in the future or that alternative measures would successfully meet our debt service obligations.

As certain of our obligations under our credit facilities and certain other borrowings could bear interest at floating rates, an increase in interest rates could further increase our debt service costs and adversely affect our cash flows.

We have debt that is convertible into shares based on the Company's stock price. This could significantly dilute the ownership percentage of current stockholders.

The agreements and instruments governing our outstanding debt contain restrictions and limitations that could significantly impact our ability to operate our business and adversely affect the price of our Capital Stock.

The operating and financial restrictions and covenants in our instruments of indebtedness restrict our ability to:

- Incur additional debt;
- Pay dividends, make redemptions and purchases of Capital Stock and make other restricted payments;

- Issue and sell capital stock of subsidiaries;
- Sell assets;
- Engage in transactions with affiliates;
- Restrict distributions from subsidiaries;
- Incur liens;
- Engage in business other than permitted businesses;
- Engage in sale/leaseback transactions;
- Engage in mergers or consolidations;
- Make capital expenditures;
- Make guarantees;
- Make investments and acquisitions;
- Enter into operating leases;
- Hedge interest rates; and
- Prepay other debt.

Moreover, if we are unable to meet the terms of the financial covenants or if we breach any of these covenants, a default could result under one or more of these agreements. A default, if not waived by our lenders, could accelerate repayment of our outstanding indebtedness. If acceleration occurs, we may not be able to repay our debt and it is unlikely that we would be able to borrow sufficient additional funds to refinance such debt on acceptable terms. In the event of any default under our credit facilities, the lenders thereunder could elect to declare all outstanding borrowings, together with accrued and unpaid interest and other fees, to be due and payable, and to require us to apply all of our available cash to repay these borrowings, any of which would be an event of default.

We depend on our management team and the loss of their service could have a material adverse effect on our business, financial condition and results of operations.

Our success depends to a large extent upon the continued services of our executive management team. The loss of key personnel could have a material adverse effect on our business, financial condition, results of operations and cash flows. Additionally, we cannot assure you that we will be able to attract or retain other skilled personnel in the future.

Environmental compliance costs and liabilities could increase our expenses and adversely affect our financial condition.

Our operations are subject to numerous environmental, health and safety laws and regulations that prohibit or restrict the discharge of pollutants into the environment and regulate employee exposure to hazardous substance in the workplace. Failure to comply with these laws could subject us to material costs and liabilities, including civil and criminal fines, costs to cleanup contamination we cause and, in some circumstances, costs to cleanup contamination we discover on our own property but did not cause.

Because we use and generate hazardous materials in some of our operations, we are potentially subject to material liabilities relating to the cleanup of contamination and personal injury claims. In addition, we have retained certain environmental liabilities in connection with the sale of former businesses. We are currently funding the cleanup of historical contamination at one of our former properties and contributing to the cleanup of third-party sites as a result of our sale of our former subsidiary DuBois Chemicals Inc. Although we have established a reserve for these liabilities, actual cleanup costs may exceed our current estimates due to factors beyond our control, such as the discovery of additional contamination or the enforcement of more stringent cleanup requirements. New laws and regulations or their stricter enforcement, the discovery of presently unknown conditions or the receipt of additional claims for indemnification could require us to incur costs or become the basis for new or increased liabilities including impairment of our brand that could have a material adverse effect on our business, financial condition and results of operations.

We are subject to certain anti-takeover statutes that might make it more difficult to effect a change in control of the Company.

We are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which prohibits us from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. The application of Section 203 could have the effect of delaying or preventing a change of control that could be advantageous to stockholders.

An adverse ruling against us in certain litigation could have an adverse effect on our financial condition and results of operations.

We are involved in litigation incidental to the conduct of our business currently and from time to time. The damages claimed against us in some of these cases are substantial.

See the “Legal Proceedings” sections of this 10-K for discussion of particular matters.

We cannot assure you that we will prevail in pending cases. Regardless of the outcome, such litigation is costly to manage, investigate and defend, and the related defense costs, diversion of management’s time and related publicity may adversely affect the conduct of our business and the results of our operations.

ROTO-ROOTER

We face intense competition from numerous, fragmented competitors. If we do not compete effectively, our business may suffer.

We face intense competition from numerous competitors, many of whom have less leverage than we do. The sewer, drain and pipe cleaning, and plumbing repair businesses are highly fragmented, with the bulk of the industries consisting of local and regional competitors. We compete primarily on the basis of advertising, range of services provided, name recognition, availability of emergency service, speed and quality of customer service, service guarantees and pricing. Our competitors may succeed in developing new or enhanced products and services more successful than ours and in marketing and selling existing and new products and services better than we do. In addition, new competitors may emerge. We cannot make any assurances that we will continue to be able to compete successfully with any of these companies.

Our operations are subject to numerous laws and regulations, exposing us to potential claims and compliance costs that could adversely affect our business.

We are subject to federal, state and local laws and regulations relating to franchising, insurance and other aspects of our business. These are discussed in greater detail under "Government Regulations" in the Description of Business section hereof. If we fail to comply with existing or future laws and regulations, we may be subject to governmental or judicial fines and sanctions. Our franchising activities are subject to various federal and state franchising laws and regulations, including the rules and regulations of the Federal Trade Commission (the "FTC") regarding the offering or sale of franchises. The rules and regulations of the FTC require us to provide all of our prospective franchisees with specific information regarding us and our franchise program in the form of a detailed franchise offering circular. In addition, a number of states require us to register our franchise offering prior to offering or selling franchises in such states. Various state laws also provide for certain rights in favor of franchisees, including (i) limitations on the franchisor's ability to terminate a franchise except for good cause, (ii) restrictions on the franchisor's ability to deny renewal of a franchise, (iii) circumstances under which the franchisor may be required to purchase certain inventory of franchisees when a franchise is terminated or not renewed in violation of such laws and (iv) provisions relating to arbitration. The ability to engage in the plumbing repair business is also subject to certain limitations and restrictions imposed by the state and local licensing laws and regulations. We cannot predict what legislation or regulations affecting our business will be enacted in the future, how existing or future laws or regulations will be enforced, administered and interpreted, or the amount of future expenditures that may be required to comply with these laws or regulations. Compliance costs associated with governmental regulations could have a material adverse effect on our business, financial condition and results of operations.

VITAS

Vitas is highly dependent on payments from Medicare and Medicaid. If there are changes in the rate or methods governing these payments, Vitas' net patient service revenue and profits could materially decline.

In excess of 90% of Vitas' net patient service revenue consists of payments from the Medicare and Medicaid programs. Such payments are made primarily on a "per diem" basis, subject to annual reimbursement caps. Because Vitas receives a per diem fee to provide eligible services to all patients, Vitas' profitability is largely dependent upon its ability to manage the costs of providing hospice services to patients. Increases in operating costs, such as labor and supply costs that are subject to inflation, without a compensating increase in Medicare and Medicaid rates, could have a material adverse effect on Vitas' business in the future. Medicare and Medicaid currently adjust the various hospice payment rates annually based primarily on the increase or decrease of the hospital wage index basket, regionally adjusted. However, the increases may be less than actual inflation. Vitas' profitability could be negatively impacted if this adjustment were eliminated or reduced, or if Vitas' costs of providing hospice services increased more than the annual adjustment. In addition, cost pressures resulting from shorter patient lengths of stay and the use of more expensive forms of palliative care, including drugs and drug delivery systems, could negatively impact Vitas' profitability. Many payors are increasing pressure to control health care costs. In addition, both public and private payors are increasing pressure to decrease, or limit increases in, reimbursement rates for health care services. Vitas' levels of revenue and profitability will be subject to the effect of possible reductions in coverage or payment rates by third-party payors, including payment rates from Medicare and Medicaid.

Each state that maintains a Medicaid program has the option to provide reimbursement for hospice services at reimbursement rates generally required to be at least as much as Medicare rates. All states in which Vitas operates cover Medicaid hospice services; however, we cannot assure you that the states in which Vitas is presently operating or states into which Vitas could expand operations will continue to cover Medicaid hospice services. In addition, the Medicare and Medicaid programs are subject to statutory and regulatory changes, retroactive and prospective rate and payment adjustments, administrative rulings, freezes and funding reductions, all of which may adversely affect the level of program payments and could have a material adverse effect on Vitas' business. We cannot assure that Medicare and/or Medicaid payments to hospices will not decrease. Reductions in amounts paid by government programs for services or changes in methods or regulations governing payments could cause Vitas' net patient service revenue and profits to materially decline.

Approximately 25% of Vitas' hospice patients reside in nursing homes. Changes in the laws and regulations regarding payments for hospice services and "room and board" provided to Vitas' hospice patients residing in nursing homes could reduce its net patient service revenue and profitability.

For Vitas' hospice patients receiving nursing home care under certain state Medicaid programs who elect hospice care under Medicare and Medicaid, the state generally must pay Vitas, in addition to the applicable Medicare or Medicaid hospice per diem rate, an amount equal to at least 95% of the Medicaid per diem nursing home rate for "room and board" furnished to the patient by the nursing home. Vitas contracts with various nursing homes for the nursing homes' provision of certain "room and board" services that the nursing homes would otherwise provide Medicaid nursing home patients. Vitas bills and collects from the applicable state Medicaid program an amount equal to approximately 95% of the amount that would otherwise have been paid directly to the nursing home under the state's Medicaid plan. Under Vitas' standard nursing home contracts, it pays the nursing home for these "room and board" services at approximately 100% of the Medicaid per diem nursing home rate.

The reduction or elimination of Medicare and Medicaid payments for hospice patients residing in nursing homes would reduce Vitas' net patient service revenue and profitability. In addition, changes in the way nursing homes are reimbursed for "room and board" services provided to hospice patients residing in nursing homes could affect Vitas' ability to serve patients in nursing homes.

If Vitas is unable to maintain relationships with existing patient referral sources or to establish new referral sources, Vitas' growth and profitability could be adversely affected.

Vitas' success is heavily dependent on referrals from physicians, long-term care facilities, hospitals and other institutional health care providers, managed care companies, insurance companies and other patient referral sources in the communities that its hospice locations serve, as well as on its ability to maintain good relations with these referral sources. Vitas' referral sources may refer their patients to other hospice care providers or not to a hospice provider at all. Vitas' growth and profitability depend significantly on its ability to establish and maintain close working relationships with these patient referral sources and to increase awareness and acceptance of hospice care by its referral sources and their patients. We cannot assure you that Vitas will be able to maintain its existing relationships or that it will be able to develop and maintain new relationships in existing or new markets. Vitas' loss of existing relationships or its failure to develop new relationships could adversely affect its ability to expand or maintain its operations and operate profitably. Moreover, we cannot assure you that awareness or acceptance of hospice care will increase or remain at current levels.

Vitas operates in an industry that is subject to extensive government regulation and claims reviews, and changes in law and regulatory interpretations could reduce its net patient service revenue and profitability and adversely affect its financial condition and results of operations.

The healthcare industry is subject to extensive federal, state and local laws, rules and regulations relating to, among others:

- Payment for services;
- Conduct of operations, including fraud and abuse, anti-kickback prohibitions, self-referral prohibitions and false claims;
- Privacy and security of medical records;
- Employment practices; and

- Various state approval requirements, such as facility and professional licensure, certificate of need, compliance surveys and other certification or recertification requirements.

Changes in these laws, rules and regulations or in interpretations thereof could reduce Vitas' net patient service revenue and profitability. Vitas' ability to comply with such regulations is a key factor in determining the success of its business. See the "Government Regulations" section of this 10-K for a greater description of these matters.

Fraud and Abuse Laws. Vitas contracts with a significant number of health care providers and practitioners, including physicians, hospitals and nursing homes and arranges for these entities to provide services to Vitas' patients. Some of these health care providers and practitioners may refer, or be in a position to refer, patients to Vitas (or Vitas may refer patients to them). These arrangements may not qualify for a safe harbor. Vitas from time to time seeks guidance from regulatory counsel as to the changing and evolving interpretations and the potential applicability of the Anti-Kickback Law to its programs, and in response thereto, takes such actions as it deems appropriate. Vitas generally believes that its contracts and arrangements with providers, practitioners and suppliers should not be found to violate the Anti-Kickback Law. However, we cannot assure you that such laws will ultimately be interpreted in a manner consistent with Vitas' practices.

Several health care reform proposals have included an expansion of the Anti-Kickback Law to include referrals of any patients regardless of payor source, which is similar to the scope of certain laws that have been enacted at the state level. In addition, a number of states in which Vitas operates have laws, which vary from state to state, prohibiting certain direct or indirect remuneration or fee-splitting arrangements between health care providers, regardless of payor source, for the referral of patients to a particular provider.

The federal Ethics in Patient Referral Act, Section 1877 of the Social Security Act (commonly known as the "Stark Law") prohibits physicians from referring Medicare or Medicaid patients for "designated health services" to entities in which they hold an ownership or investment interest or with whom they have a compensation arrangement, subject to certain statutory or regulatory exceptions. We cannot assure you that future statutory or regulatory changes will not result in hospice services being subject to the Stark Law's ownership, investment, compensation or referral prohibitions. Several states in which Vitas operates have similar laws which likewise are subject to change. Any such changes could adversely affect the business, financial condition and operating results of Vitas.

Further, under separate statutes, submission of claims for items or services that are "not provided as claimed" may lead to civil money penalties, criminal fines and imprisonment and/or exclusion from participation in Medicare, Medicaid and other federally funded state health care programs. These false claims statutes include the federal False Claims Act, which allows any person to bring suit on behalf of the federal government, known as a *qui tam* action, alleging false or fraudulent Medicare or Medicaid claims or other violations of the statute and to share in any amounts paid by the entity to the government in fines or settlement. See the discussion of the governmental investigations pending against Vitas under Other Healthcare Regulations, above.

Certificate of Need Laws. Many states, including Florida, have certificate of need laws or other similar health planning laws that apply to hospice care providers. These states may require some form of state agency review or approval prior to opening a new hospice program, to adding or expanding hospice services, to undertaking significant capital expenditures or under other specified circumstances. Approval under these certificate of need laws is generally conditioned on the showing of a demonstrable need for services in the community. Vitas may seek to develop, acquire or expand hospice programs in states having certificate of need laws. To the extent that state agencies require Vitas to obtain a certificate of need or other similar approvals to expand services at existing hospice programs or to make acquisitions or develop hospice programs in new or existing geographical markets, Vitas' plans could be adversely affected by a failure to obtain a certificate or approval. In addition, competitors may seek administratively or judicially to challenge such an approval or proposed approval by the state agency. Such a challenge, whether or not ultimately successful, could adversely affect Vitas.

Other Federal and State Regulations. The federal government and all states regulate various aspects of the hospice industry and Vitas' business. In particular, Vitas' operations are subject to federal and state health regulatory laws, including those covering professional services, the dispensing of drugs and certain types of hospice activities. Certain of Vitas' employees are subject to state laws and regulations governing professional practice. Vitas' operations are subject to periodic survey by governmental authorities and private accrediting entities to assure compliance with applicable state licensing, and Medicare and Medicaid certification and accreditation standards, as the case may be. From time to time in the ordinary course of business, Vitas receives survey reports noting deficiencies for alleged failure to comply with applicable requirements. Vitas reviews such reports and takes appropriate corrective action. The failure to effect such action could result in one of Vitas' hospice programs being terminated from the Medicare hospice program. Any termination of one or more of Vitas' hospice locations from the Medicare hospice program could adversely affect Vitas' net patient service revenue and profitability and adversely affect its financial condition and results of operations. The failure to obtain, renew or maintain any of the required regulatory approvals, certifications or licenses could materially adversely affect Vitas' business and could prevent the programs involved from offering products and services to patients. In addition, laws and regulations often are adopted to regulate new products, services and industries. We cannot assure you that either the states or the federal government will not impose additional regulations on Vitas' activities, which might materially adversely affect Vitas, including impairing the value of its brand.

Claims Review. The Medicare and Medicaid programs and their fiscal intermediaries and other payors periodically conduct pre-payment or post-payment reviews and other reviews and audits of health care claims, including hospice claims. As a result of such reviews or audits, Vitas could be required to return any amounts found to be overpaid, or amounts found to be overpaid could be recouped through reductions in future payments. There is pressure from state and federal governments and other payors to scrutinize health care claims to determine their validity and appropriateness. During the past several years, Vitas' claims have been subject to review and audit. We cannot assure you that reviews and/or similar audits of Vitas' claims will not result in material recoupments, denials or other actions that could have a material adverse effect on Vitas' business, financial condition and results of operations. See the discussion of OIG investigations pending against Vitas under Other Health Care Regulations, above.

Regulation and Provision of Continuous Home Care. Vitas provides continuous home care to patients requiring such care. Continuous home care is provided to patients while at home, during periods of crisis when intensive monitoring and care, primarily nursing care, is required in order to achieve palliation or management of acute medical symptoms. Continuous home care requires a minimum of 8 hours of care within a 24-hour day, which begins and ends at midnight. The care must be predominantly nursing care provided by either a registered nurse or licensed practical nurse.

Continuous home care can be challenging for a hospice to provide for a number of reasons, including the need to have available sufficient skilled and trained staff to furnish such care, the need to manage the staffing and provision of such care, and a shortage of nurses that can make it particularly difficult to attract and retain nurses that are required to furnish a majority of such care. Medicare reimbursement for continuous home care has been calculated by multiplying the applicable continuous home care hourly rate by the number of hours of care provided. If the care was provided for less than one hour, Medicare requires reporting in 15-minute increments of care provided, with no rounding.

Medicare reimbursement for continuous home care is subject to a number of requirements posing further challenges for a hospice providing such care. For example, if a patient requires skilled interventions for palliation or symptom management that can be accomplished in less than 8 aggregate hours within the 24-hour period, if the majority of care can be accomplished by someone other than a registered nurse or a licensed practical nurse (e.g., if a majority of care is furnished by a home health aide or homemaker), or if for any reason less than 8 hours of direct care are provided (such as when a patient dies before 8 AM even if 7 or more hours of care has been provided), the care rendered cannot be reimbursed by Medicare at the continuous home care rate (although the care instead may be eligible for Medicare reimbursement at the reduced routine home care day rate). As a result of such requirements, Vitas may incur the costs of providing services intended to be continuous home care services yet be unable to bill or be reimbursed for such services at the continuous home care rate. We cannot assure you that challenges in providing continuous home care will not cause Vitas' net patient service revenue and profits to materially decline or that reviews and/or similar audits of Vitas' claims will not result in material recoupments, denials or other actions that could have a material adverse effect on Vitas' business, financial condition and results of operations.

Compliance. Vitas maintains an internal regulatory compliance review program and from time to time retains regulatory counsel for guidance on compliance matters. We cannot assure you, however, that Vitas' practices, if reviewed, would be found to be in compliance with applicable health regulatory laws, as such laws ultimately may be interpreted, or that any non-compliance with such laws would not have a material adverse effect on Vitas.

Federal and state legislative and regulatory initiatives could require Vitas to expend substantial sums on acquiring, implementing and supporting new information systems, which could negatively impact its profitability.

There are currently numerous legislative and regulatory initiatives at both the state and federal levels that address patient privacy concerns. We cannot predict the total financial or other impact of the regulations on Vitas' operations. In addition, although Vitas' management believes it is in compliance with the requirement of patient privacy regulations, we cannot assure you that Vitas will not be found to have violated state and federal laws, rules or guidelines surrounding patient privacy. Compliance with current and future HIPAA requirements or any other federal or state privacy initiatives could require Vitas to make substantial investments, which could negatively impact its profitability and cash flows.

Vitas' growth strategies may not be successful, which could adversely affect its business.

A significant element of Vitas' growth strategy is expected to include expansion of its business in new and existing markets. This aspect of Vitas' growth strategy may not be successful, which could adversely impact its growth and profitability. We cannot assure you that Vitas will be able to:

- Identify markets that meet its selection criteria for new hospice locations;
- Hire and retain qualified management teams to operate each of its new hospice locations;
- Manage a large and geographically diverse group of hospice locations;
- Become Medicare and Medicaid certified in new markets;
- Generate sufficient hospice admissions in new markets to operate profitably in these new markets;
- Compete effectively with existing hospices in new markets; or
- Obtain state licensure and/or a certificate of need from appropriate state agencies in new markets.

In addition to growing existing locations and developing new hospice locations, Vitas' growth is expected to include expansion through acquisition of other hospices. We cannot assure you that Vitas' acquisition strategy will be successful. The success of Vitas' acquisition strategy depends upon a number of factors, including:

- Its ability to identify suitable acquisition candidates;
- Its ability to negotiate favorable acquisition terms, including purchase price, which may be adversely affected due to increased competition with other buyers;
- The availability of financing on favorable terms, or at all;
- Its ability to integrate effectively the systems and operations of acquired hospices;
- Its ability to retain key personnel of acquired hospices; and
- Its ability to obtain required regulatory approvals.

Acquisitions involve a number of other risks, including diversion of management's attention from other business concerns and assuming known or unknown liabilities of acquired hospices, including liabilities for failure to comply with health care laws and regulations. Integrating acquired hospices may place significant strains on Vitas' current operating and financial systems and controls. Vitas may not successfully overcome these risks or any other problems encountered in connection with its acquisition strategy.

In addition, since 1990, Vitas has acquired hospice programs, some of which involved acquisitions of hospice programs from not-for-profit entities. Vitas believes that acquisitions of not-for-profit programs are generally more complex than acquisitions from for-profit entities and that a substantial number of acquisition opportunities are likely to involve acquisitions from not-for-profit entities. Such acquisitions are subject to provisions of the Internal Revenue Code and, in certain states, state attorney general powers, which have been interpreted to require that the consideration paid for the assets purchased be at fair market value and, where applicable, that any fees paid for services be reasonable. In many states there is no mechanism for state attorney general pre-clearance of transactions to assure that applicable standards have been met. Entities that acquired not-for-profit hospices could face potential liability if the acquisition transaction is not structured to comply with Internal Revenue Code and state law requirements, and in some cases the transaction could be enjoined or subject to rescission. The acquisition of not-for-profit businesses, including the fairness of the purchase price paid, has received increasing regulatory scrutiny by state attorneys general and other regulatory authorities. Although Vitas believes that reasonable actions have been taken to date to establish the fair market value of assets purchased in prior acquisitions of hospice operations from not-for-profit entities and the reasonableness of fees paid for services, we cannot assure you that such transactions or any future similar transactions will not be challenged or that, if challenged, the results of such challenge would not have a material adverse effect on Vitas' business.

Vitas' loss of key management personnel or its inability to hire and retain skilled employees could adversely affect its business, financial condition and results of operations.

Vitas' future success significantly depends upon the continued service of its senior management personnel. The loss of one or more of Vitas' key senior management personnel or its inability to hire and retain new skilled employees could negatively impact Vitas' ability to maintain or increase patient referrals, a key aspect of its growth strategy, and could adversely affect its future operating results.

Competition for skilled employees is intense, and the process of locating and recruiting skilled employees with the combination of qualifications and attributes required to care effectively for terminally ill patients and their families can be difficult and lengthy. We cannot assure you that Vitas will be successful in attracting, retaining or training highly skilled nursing, management, community education, operations, admissions and other personnel. Vitas' business could be disrupted and its growth and profitability negatively impacted if it is unable to attract and retain skilled employees.

A nationwide shortage of qualified nurses could adversely affect Vitas' profitability, growth and ability to continue to provide quality, responsive hospice services to its patients as nursing wages and benefits increase.

The substantial majority of Vitas' workforce is nurses. Vitas depends on qualified nurses to provide quality, responsive hospice services to its patients. The current nationwide shortage of qualified nurses impacts some of the markets in which Vitas provides hospice services. In response to this shortage, Vitas has adjusted its wages and benefits to recruit and retain nurses and to engage contract nurses. Vitas' inability to attract and retain qualified nurses could adversely affect its ability to provide quality, responsive hospice services to its patients and its ability to increase or maintain patient census in those markets. Increases in the wages and benefits required to attract and retain qualified nurses or an increase in reliance on contract nurses could negatively impact profitability.

Vitas may not be able to compete successfully against other hospice providers, and competitive pressures may limit its ability to maintain or increase its market position and adversely affect its profitability, financial condition and results of operations.

Hospice care in the United States is highly competitive. In many areas in which Vitas' hospices are located, they compete with a large number of organizations, including:

- Community-based hospice providers;
- National and regional companies;
- Hospital-based hospice and palliative care programs;
- Physician groups;
- Nursing homes;
- Home health agencies;
- Infusion therapy companies; and
- Nursing agencies.

Various health care companies have diversified into the hospice market. Other companies, including hospitals and health care organizations that are not currently providing hospice care, may enter the markets Vitas serves and expand the variety of services offered to include hospice care. We cannot assure you that Vitas will not encounter increased competition in the future that could limit its ability to maintain or increase its market position, including competition from parties in a position to impact referrals to Vitas. Such increased competition could have a material adverse effect on Vitas' business, financial condition and results of operations.

Changes in rates or methods of payment for Vitas' services could adversely affect its revenues and profits.

Managed care organizations have grown substantially in terms of the percentage of the population they cover and their control over an increasing portion of the health care economy. Managed care organizations have continued to consolidate to enhance their ability to influence the delivery of health care services and to exert pressure to control health care costs. Vitas has a number of contractual arrangements with managed care organizations and other similar parties.

Vitas provides hospice care to many Medicare beneficiaries who receive their non-hospice health care services from health maintenance organizations ("HMOs") under Medicare risk contracts. Under such contracts between HMOs and the federal Department of Health and Human Services, the Medicare payments for hospice services are excluded from the per-member, per-month payment from Medicare to HMOs and instead are paid directly by Medicare to the hospices. As a result, Vitas' payments for Medicare beneficiaries enrolled in Medicare risk HMOs are processed in the same way with the same rates as other Medicare beneficiaries. We cannot assure, however, that payment for hospice services will continue to be excluded from HMO payment under Medicare risk contracts and similar Medicare managed care plans or that if not excluded, managed care organization or other large third-party payors would not use their power to influence and exert pressure on health care providers to reduce costs in a manner that could have a material adverse effect on Vitas' business, financial condition and results of operations.

Liability claims may have an adverse effect on Vitas, and its insurance coverage may be inadequate.

Participants in the hospice industry are subject to lawsuits alleging negligence, product liability or other similar legal theories, many of which involve large claims and significant defense costs. From time to time, Vitas is subject to such and other types of lawsuits. See the description below under Legal Proceedings. The ultimate liability for claims, if any, could have a material adverse effect on its financial condition or operating results. Although Vitas currently maintains liability insurance intended to cover the claims, we cannot assure you that the coverage limits of such insurance policies will be adequate or that all such claims will be covered by the insurance. In addition, Vitas' insurance policies must be renewed annually and may be subject to cancellation during the policy period. While Vitas has been able to obtain liability insurance in the past, such insurance varies in cost, is difficult to obtain and may not be available in the future on terms acceptable to Vitas, if at all.

A successful claim in excess of the insurance coverage could have a material adverse effect on Vitas. Claims, regardless of their merit or eventual outcome, also may have a material adverse effect on Vitas' business and reputation due to the costs of litigation, diversion of management's time and related publicity.

Vitas procures professional liability coverage on a claims-made basis. The insurance contracts specify that coverage is available only during the term of each insurance contract. Vitas' management intends to renew or replace the existing claims-made policy annually but such coverage is difficult to obtain, may be subject to cancellation and may be written by carriers that are unable, or unwilling to pay claims. During fiscal 2001, Vitas was notified that one of its prior carriers was ordered into rehabilitation, and in early fiscal 2002, into liquidation, creating the possibility that certain prior year claims could be underinsured or uninsured. Certain claims have been asserted where the coverage would be the responsibility of this prior carrier and/or other carriers that may not have the financial wherewithal to satisfy the claims. Additionally, some risks and liabilities, including claims for punitive damages, are not covered by insurance.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company's corporate offices and the headquarters for the Roto-Rooter Group are located in Cincinnati, Ohio. Roto-Rooter has manufacturing and distribution center facilities in West Des Moines, Iowa and has 71 leased and owned office and service facilities in 27 states. Vitas headquartered in Miami, operates 45 programs from 135 leased facilities and 32 inpatient units in 15 states and the District of Columbia.

All "owned" property is held in fee and is subject to the security interests of the holders of our debt instruments. The leased properties have lease terms ranging from one year to seven years. Management does not foresee any difficulty in renewing or replacing the remainder of its current leases. The Company considers all of its major operating properties to be maintained in good operating condition and to be generally adequate for present and anticipated needs.

Item 3. Legal Proceedings

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. 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. In December 2009, the trial court denied plaintiff's motion for class certification. The lawsuit is in its early stage and we are unable to estimate our potential liability, if any, with respect to these allegations.

On March 1, 2010 Anthony Morangelli and Frank Ercole filed a class action lawsuit in federal district court for the Eastern District of New York seeking unpaid minimum wages and overtime service technician compensation from Roto-Rooter Services Company and Chemed. They also seek payment of penalties, interest and Plaintiffs' attorney fees. The Company contests these allegations. In September 2010, the Court conditionally certified a nationwide class of service technicians, excluding those who signed dispute resolution agreements agreeing to arbitrate claims arising out of their employment. There has been no final determination of the merits of collective treatment of the case. We are unable to estimate our potential liability, if any, related to this case.

Regardless of outcome, such litigation can adversely affect the Company through defense costs, diversion of management's 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.

See also the OIG investigations pending against Vitas under Other Health Care Regulations, above.

Item 4. Removed and Reserved

Executive Officers of the Company

Name	Age	Office	First Elected
Kevin J. McNamara	57	President and Chief Executive Officer	August 2, 1994 (1)
Timothy S. O'Toole	55	Executive Vice President	May 18, 1992 (2)
Spencer S. Lee	55	Executive Vice President	May 15, 2000 (3)
David P. Williams	50	Executive Vice President and Chief Financial Officer	March 5, 2004 (4)
Arthur V. Tucker, Jr.	61	Vice President and Controller	February 1, 1989 (5)

(1) Mr. K. J. McNamara is President and Chief Executive Officer of the Company and has held these positions since August 1994 and May 2001, respectively. Previously, he served as an Executive Vice President, Secretary and General Counsel of the Company, since November 1993, August 1986 and August 1986, respectively. He previously held the position of Vice President of the Company, from August 1986 to May 1992.

(2) Mr. T.S. O'Toole is an Executive Vice President of the Company and has held this position since May 1992. He is also Chief Executive Officer of Vitas, a wholly owned subsidiary of the Company, and has held this position since February 24, 2004. Previously, from May 1992 to February 24, 2004, he also served the Company as Treasurer.

(3) Mr. S. S. Lee is an Executive Vice President of the Company and has held this position since May 15, 2000. Mr. Lee is also Chairman and Chief Executive Officer of Roto-Rooter Services Company, a wholly owned subsidiary of the Company, and has held this position since January 1999. Previously, he served as a Senior Vice President of Roto-Rooter Services Company from May 1997 to January 1999.

(4) Mr. D. P. Williams is an Executive Vice President and the Chief Financial Officer of the company and has held these positions since August 10, 2007 and March 5, 2004, respectively. Mr. Williams is also Senior Vice President and Chief Financial Officer of Roto-Rooter Group, Inc., and has held these positions since January 1999.

(5) Mr. A. V. Tucker, Jr. is a Vice President and Controller of the Company and has held these positions since February 1989. From May 1983 to February 1989, he held the position of Assistant Controller of the Company.

Each executive officer holds office until the annual election at the next annual organizational meeting of the Board of Directors of the Company which is scheduled to be held on May 16, 2011.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's Capital Stock (par value $1 per share) is traded on the New York Stock Exchange under the symbol CHE. The range of the high and low sale prices on the New York Stock Exchange and dividends paid per share for each quarter of 2009 and 2010 are set forth below.

	Closing		Dividends Paid
	High	Low	Per Share
2009			
First Quarter	$ 44.86	$ 34.20	$ .06
Second Quarter	43.01	37.18	.06
Third Quarter	45.11	36.76	.12
Fourth Quarter	48.79	43.50	.12
2010			
First Quarter	$ 57.18	$ 46.41	$ .12
Second Quarter	58.34	51.31	.12
Third Quarter	57.30	49.52	.14
Fourth Quarter	64.66	55.41	.14

Future dividends are necessarily dependent upon the Company's earnings and financial condition, compliance with certain debt covenants and other factors not presently determinable.

As of February 15, 2011, there were approximately 2,389 stockholders of record of the Company's Capital Stock. This number only includes stockholders of record and does not include stockholders with shares beneficially held in nominee name or within clearinghouse positions of brokers, banks or other institutions.

During 2010, the number of shares of Capital Stock repurchased by the Company, the weighted average price paid for each share, the cumulative shares repurchased under each program and the dollar amounts remaining under each program were as follows:

Company Purchase of Shares of Capital Stock

	Total Number Of Shares Repurchased	Weighted Average Price Paid Per Share	Cumulative Shares Repurchased Under The Program	Dollar Amount Remaining Under The Program
April 2007 Program				
January 1 through January 31, 2010	31,375	$ 47.17	1,736,972	$ 51,718,696
February 1 through February 28, 2010	—	$ —	1,736,972	$ 51,718,696
March 1 through March 31, 2010	—	$ —	1,736,972	$ 51,718,696
First Quarter Total — April 2007 Program	31,375	$ 47.17		
April 1 through April 30, 2010	—	$ —	1,736,972	$ 51,718,696
May 1 through May 31, 2010	38,492	$ 53.70	1,775,464	$ 49,651,677
June 1 through June 30, 2010	76,408	$ 55.65	1,851,872	$ 45,399,865
Second Quarter Total — April 2007 Program	114,900	$ 54.99		
July 1 through July 31, 2010	—	$ —	1,851,872	$ 45,399,865
August 1 through August 30, 2010	—	$ —	1,851,872	$ 45,399,865
September 1 through September 30, 2010	—	$ —	1,851,872	$ 45,399,865
Third Quarter Total — April 2007 Program	—	$ —		
October 1 through October 31, 2010	—	$ —	1,851,872	$ 45,399,865
November 1 through November 30, 2010	44,386	$ 60.28	1,896,258	$ 42,724,473
December 1 through December 31, 2010	1,457,386	$ 64.21	3,353,644	$ 19,143,606
Fourth Quarter Total — April 2007 Program	1,501,772	$ 64.09		

On April 26, 2007, our Board of Directors authorized a $150 million share repurchase plan with no expiration date.

On May 20, 2008, our Board of Directors authorized an additional $56 million under the April 2007 Program.

On December 27, 2010, our Board of Directors authorized an additional $70 million under the April 2007 Program.

As of December 31, 2010, the number of stock options outstanding under the Company's equity compensation plans, the weighted average exercise price of outstanding options, and the number of securities remaining available for issuance were as follows:

EQUITY COMPENSATION PLAN INFORMATION

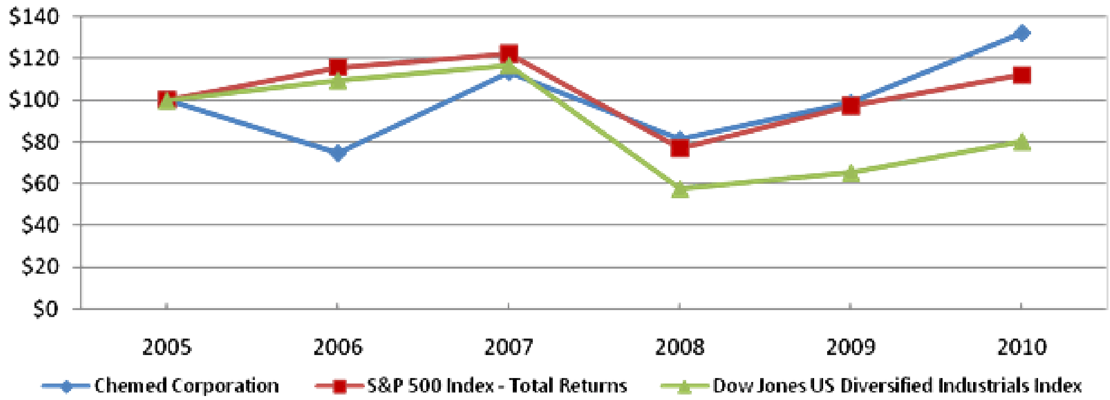
Plan Category	Number of securities to be issued upon exercise of outstanding warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans [excluding securities reflected in column (a)] (c)
Equity Compensation plans approved by stockholders	2,564,366	$ 47.37	2,027,073
Equity Compensation plans not approved by stockholders (1)	22,280	26.54	—
TOTAL	2,586,646	$ 47.19	2,027,073

(1) In May 1999 the Board of Directors adopted the 1999 Long-Term Employee Incentive Plan without stockholder approval. This plan permits the Company to grant up to 500,000 shares of non-qualified options and stock awards to a broad base of salaried and hourly employees (excluding officers and directors) of the Company. Except for the exclusion of officers and directors, this plan has the same general terms and provisions as the 2006 Stock Incentive Plan. In addition, pursuant to this plan no individual may be granted more than 50,000 stock options in a calendar year, the aggregate number of the shares of Capital Stock which may be issued pursuant to stock incentives in the form of Stock Awards shall not be more than 270,000, and no stock incentives shall be granted under the plan after May 17, 2009.

Comparative Stock Performance

The graph below compares the yearly percentage change in the Company's cumulative total stockholder return on Capital Stock (as measured by dividing (i) the sum of (A) the cumulative amount of dividends for the period December 31, 2005, to December 31, 2010, assuming dividend reinvestment, and (B) the difference between the Company's share price at December 31, 2005 and December 31, 2010; by (ii) the share price at December 31, 2005) with the cumulative total return, assuming reinvestment of dividends, of the (1) S&P 500 Stock Index and (2) Dow Jones Industrial Diversified Index.

Chemed Corporation
Cumulative Total Stockholder Return for
Five-Year Period Ending December 31, 2010



December 31	2005	2006	2007	2008	2009	2010
Chemed Corporation	100.00	74.83	113.55	81.29	98.89	132.17
S&P 500 Index — Total Returns	100.00	115.81	122.17	76.96	97.31	111.98
Dow Jones US Diversified Industrials Index	100.00	109.62	116.87	57.69	65.47	80.44

Item 6. Selected Financial Data

The information called for by this Item for the five years ended December 31, 2010 is set forth on page 34 of the 2010 Annual Report to Stockholders and is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information called for by this Item is set forth on pages 38 through 51 of the 2010 Annual Report to Stockholders and is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company's primary market risk exposure relates to interest rate risk exposure through its variable interest line of credit. At December 31, 2010 the Company had no variable rate debt outstanding. For each $10 million dollars borrowed under the credit facility, an increase or decrease of 100 basis points (1% point), increases or decreases the Company's annual interest expense by $100,000.

The Company continually evaluates this interest rate exposure and periodically weighs the cost versus the benefit of fixing the variable interest rates through a variety of hedging techniques.

The market value of the Company's long-term debt at December 31, 2010 is approximately $189.1 million versus a carrying value of $159.2 million.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 28, 2011, appearing on pages 1 through 31 of the 2010 Annual Report to Stockholders, along with the Supplementary Data (Unaudited Summary of Quarterly Results) appearing on pages 32-33, are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, under the supervision of and with the participation of the Company's President and Chief Executive Officer, Executive Vice President and Chief Financial Officer and Vice President and Controller, has evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report. Based on such evaluation, the Company's President and Chief Executive Officer, Executive Vice President and Chief Financial Officer and Vice President and Controller have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective and are reasonably designed to ensure that all material information relating to the Company required to be included in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to management, including the President and Chief Executive Officer, Executive Vice President and Chief Financial Officer and Vice President and Controller, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Refer to Management's Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm on pages 1 and 2 of the Company's 2010 Annual Report to Stockholders, which are incorporated herein by reference.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act during the Company's fiscal quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The directors of the Company are:

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

The additional information required under this Item is set forth in the Company's 2011 Proxy Statement and in Part I hereof under the caption "Executive Officers of the Registrant" and is incorporated herein by reference.

The Company has adopted a Code of Ethics that applies to the Company's principal executive officer, principal financial officer, principal accounting officer, directors and employees. A copy of this Code of Ethics is incorporated with this report as Exhibit 14 and it is also posted on the Company's Web site, www.chemed.com.

Item 11. Executive Compensation

Information required under this Item is set forth in the Company's 2011 Proxy Statement, which is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required under this Item is set forth in the Company’s 2011 Proxy Statement, which is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence.

Information required under this Item is set forth in the Company’s 2011 Proxy Statement, which is incorporated herein by reference.

A description of related party transactions is shown in Note 20 of the Notes to Consolidated Financial Statements on page 27 of the 2010 Annual Report to Stockholders and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Audit Fees

PricewaterhouseCoopers LLP billed the Company $1,530,000 for 2009 and $1,568,000 for 2010. These fees were for professional services rendered for the integrated audit of the Company’s annual financial statements and of its internal control over financial reporting, review of the financial statements included in the Company’s Forms 10-Q and review of documents filed with the SEC.

Audit-Related Fees

PricewaterhouseCoopers LLP billed the Company $221,000 and $131,000 for 2009 and 2010, respectively, for audit-related services. These services were related to the audit of one of Vitas’ Florida subsidiaries.

Tax Fees

No such services were rendered in 2009 or 2010.

All Other Fees

No other services were rendered in 2009. For 2010, $30,000 was billed for Information Technology Consulting Services.

The Audit Committee has adopted a policy which requires the Committee’s pre-approval of audit and non-audit services performed by the independent auditor to assure that the provision of such services does not impair the auditor’s independence. The Audit Committee pre-approved all of the audit and non-audit services rendered by PricewaterhouseCoopers LLP as listed above.

PART IV

Item 15 Exhibits and Financial Statement Schedule

Exhibits

3.1	Certificate of Incorporation of Chemed Corporation.*
3.2	Certificate of Amendment to Certificate of Incorporation.*
3.3	By-Laws of Chemed Corporation.*
10.1	1999 Stock Incentive Plan.*,**
10.2	1999 Long-Term Employee Incentive Plan as amended through May 20, 2002.*,**
10.3	2002 Stock Incentive Plan.*,**
10.4	2002 Executive Long-Term Incentive Plan, as amended May 18, 2004.*,**
10.5	2004 Stock Incentive Plan.*,**
10.6	2006 Stock Incentive Plan, as amended August 11, 2006.*,**
10.7	2010 Stock Incentive Plan.*,**
10.8	Repurchase Agreement dated May 8, 2007 by and among Chemed Corporation, J.P. Morgan Securities Inc. and Citigroup Global Markets, Inc.*
10.9	Convertible Senior Note Indenture dated May 14, 2007 for 1.875% Convertible Senior Notes due 2014 by and among Chemed Corporation, the Subsidiary Guarantors and LaSalle Bank NA, as Trustee.*
10.10	Employment Agreement with David P. Williams dated December 1, 2006.*,**
10.11	First Amendment to Employment Agreement with David P. Williams dated July 9, 2009.*,**
10.12	Employment Agreement with Timothy S. O'Toole dated May 6, 2007.*,**
10.13	First Amendment to Employment Agreement with Timothy S. O'Toole dated July 9, 2009.*,**
10.14	Employment Agreement with Kevin J. McNamara dated May 3, 2008.*,**
10.15	First Amendment to Employment Agreement with Kevin J. McNamara dated July 9, 2009.*,**
10.16	Registration Rights Agreement, dated May 14, 2007 by and among Chemed Corporation, J.P. Morgan Securities, Inc. and Citigroup Global Markets Inc.*

10.17	Confirmation of Convertible Note Hedge, dated May 8, 2007 between Chemed Corporation and J.P. Morgan Chase Bank, NA.*
10.18	Confirmation of Convertible Note Hedge, dated May 8, 2007 between Chemed Corporation and Citibank, NA.*
10.19	Form of Convertible Note Warrant Transaction, dated May 8, 2007 between Chemed Corporation and Citibank NA.*
10.20	Form of Convertible Note Warrant Transaction, dated May 8, 2007 between Chemed Corporation and J.P. Morgan Chase Bank, NA.*
10.21	Excess Benefits Plan, as restated and amended, effective June 1, 2001.*,**
10.22	Amendment No. 1 to Excess Benefits Plan, effective July 1, 2001.*,**
10.23	Amendment No. 2 to Excess Benefits Plan, effective November 7, 2003.*,**
10.24	Non-Employee Directors' Deferred Compensation Plan.*,**
10.25	Chemed/Roto-Rooter Savings & Retirement Plan, effective January 1, 1999.*,**
10.26	First Amendment to Chemed/Roto-Rooter Savings & Retirement Plan, effective September 6, 2000.*,**
10.27	Second Amendment to Chemed/Roto-Rooter Savings & Retirement Plan, effective January 1, 2001.*,**
10.28	Third Amendment to Chemed/Roto-Rooter Savings & Retirement Plan, effective December 12, 2001.*,**
10.29	Directors Emeriti Plan.*,**
10.30	Chemed Corporation Change in Control Severance Plan, as amended July 9, 2009.*,**
10.31	Chemed Corporation Senior Executive Severance Policy, as amended July 9, 2009.*,**
10.32	Roto-Rooter Deferred Compensation Plan No. 1, as amended January 1, 1998.*,**
10.33	Roto-Rooter Deferred Compensation Plan No. 2.*,**
10.34	Agreement and Plan of Merger, dated as of December 18, 2003, among Roto-Rooter, Inc., Marlin Merger Corp. and Vitas Healthcare Corporation.*
10.35	Credit Agreement, dated as of May 2, 2007, among Chemed Corporation, the lenders from time to time parties thereto and J.P. Morgan Chase Bank, NA, as Administrative Agent.*
10.35a	Credit Agreement Exhibits, dated as of May 2, 2007, among Chemed Corporation, the lenders from time to time parties thereto and J.P. Morgan Chase Bank, NA, as Administrative Agent.

10.35b	Credit Agreement Schedules, dated as of May 2, 2007, among Chemed Corporation, the lenders from time to time parties thereto and J.P. Morgan Chase Bank, NA, as Administrative Agent.
10.36	Form of Restricted Stock Award.*,**
10.37	Form of Stock Option Grant.*,**
12	Computation of Ratio to Earnings to Fixed Charges.
13	2010 Annual Report to Stockholders.
14	Policies on Business Ethics of Chemed Corporation.*
21	Subsidiaries of Chemed Corporation.
23	Consent of Independent Registered Public Accounting Firm.
24	Powers of Attorney.
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.
101.INS	XBRL Instance Document*
101.SCH	XBRL Extension Schema*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase*
101.LAB	XBRL Taxonomy Extension Label Linkbase*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase*

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* This exhibit is being filed by means of incorporation by reference (see Index to Exhibits on page E-1). Each other exhibit is being filed with this Annual Report on Form 10-K.

** Management contract or compensatory plan or arrangement.

Financial Statement Schedule

See Index to Financial Statements and Financial Statement Schedule on page S-1.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

February 28, 2011

CHEMED CORPORATION

By /s/ Kevin J. McNamara
Kevin J. McNamara
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title		Date
/s/ Kevin J. McNamara Kevin J. McNamara	President and Chief Executive Officer and a Director (Principal Executive Officer)		
/s/ David P. Williams David P. Williams	Executive Vice President and Chief Financial Officer (Principal Financial Officer)		
/s/ Arthur V. Tucker, Jr. Arthur V. Tucker, Jr.	Vice President and Controller (Principal Accounting Officer)		February 28, 2011
Joel F. Gemunder* Patrick P. Grace* Thomas C. Hutton* Walter L. Krebs* Andrea R. Lindell*	Thomas P. Rice* Donald E. Saunders* George J Walsh III* Frank E. Wood*	— Directors	

* Naomi C. Dallob by signing her name hereto signs this document on behalf of each of the persons indicated above pursuant to powers of attorney duly executed by such persons and filed with the Securities and Exchange Commission.

February 28, 2011
Date

/s/ Naomi C. Dallob
Naomi C. Dallob
(Attorney-in-Fact)

CHEMED CORPORATION AND SUBSIDIARY COMPANIES

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE
2008, 2009 AND 2010

* Indicates page numbers in Chemed Corporation 2010 Annual Report to Stockholders

The consolidated financial statements of Chemed Corporation listed above, appearing in the 2010 Annual Report to Stockholders, are incorporated herein by reference. The Financial Statement Schedule should be read in conjunction with the consolidated financial statements listed above. Schedules not included have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto as listed above.

Report of Independent Registered Public Accounting
Firm on Financial Statement Schedule

To the Board of Directors of Chemed Corporation

Our audits of the consolidated financial statements and the effectiveness of internal control over financial reporting referred to in our report dated February 28, 2011 appearing in the 2010 Annual Report to Stockholders of Chemed Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Cincinnati, Ohio
February 28, 2011

SCHEDULE II

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
VALUATION AND QUALIFYING ACCOUNTS
(IN THOUSANDS)
DR/(CR)

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS (CHARGED) CREDITED TO COSTS AND EXPENSES	ADDITIONS (CHARGED) CREDITED TO OTHER ACCOUNTS	DEDUCTIONS (a)	BALANCE AT END OF PERIOD
Allowances for doubtful accounts (b)					
For the year 2010	$ (12,595)	$ (9,118)	$ (472)	$ 8,853	$ (13,332)
For the year 2009	$ (10,320)	$ (10,861)	$ (656)	$ 9,242	$ (12,595)
For the year 2008	$ (9,746)	$ (9,870)	$ 13	$ 9,283	$ (10,320)
Allowances for doubtful accounts — notes receivable (c)					
For the year 2010	$ (408)	$ 40	$ —	$ —	$ (368)
For the year 2009	$ (482)	$ 28	$ 44	$ 2	$ (408)
For the year 2008	$ (529)	$ 51	$ (13)	$ 9	$ (482)

(a) With respect to allowances for doubtful accounts, deductions include accounts considered uncollectible or written off, payments, companies divested, etc.

(b) Classified in consolidated balance sheet as a reduction of accounts receivable.

(c) Classified in consolidated balance sheet as a reduction of other assets.

Table of Contents

INDEX TO EXHIBITS

Exhibit Number		Page Number or Incorporation by Reference: File No. and Filing Date	Previous Exhibit No.
3.1	Certificate of Incorporation of Chemed Corporation	Form S-3 Reg. No. 33-44177 11/26/91	4.1
3.2	Certificate of Amendment to Certificate of Incorporation	Form 8-K 5/16/06	3.1
3.3	By-Laws of Chemed Corporation as amended November 10, 2009	Form 8-K 11/13/09	3.1
10.1	1999 Stock Incentive Plan	Form 10-K 3/29/00, **	10.11
10.2	1999 Long Term Employee Incentive Plan as amended through May 20, 2002	Form 10-K 3/28/03, **	10.16
10.3	2002 Stock Incentive Plan	Form 10-K 3/28/03, **	10.17
10.4	2002 Executive Long- Incentive Plan, as amended May 18, 2004	Form 10-Q 8/19/04, **	10.16
10.5	2004 Stock Incentive Plan	Proxy Statement 3/25/04, **	A
10.6	2006 Stock Incentive Plan, as amended August 11, 2006	Form 10-Q 8/14/06, **	10.1
10.7	2010 Stock Incentive Plan	Form 8-K 5/18/10, **	99.1
10.8	Repurchase Agreement dated May 8, 2007 by and among Chemed Corporation, J.P. Morgan Securities Inc. and Citigroup Global Markets, Inc.	Form 8-K 5/17/07	1.1
10.9	Convertible Senior Note Indenture dated May 14, 2007 for 1.875% Convertible Senior Notes due 2014 by and among Chemed Corporation, the Subsidiary Guarantors and LaSalle Bank NA, as Trustee.	Form 8-KA 5/22/07	4.1
10.10	Employment Agreement with David P. Williams dated December 1, 2006.	Form 8-K 12/1/06, **	10.01

Exhibit Number		Page Number or Incorporation by Reference: File No. and Filing Date	Previous Exhibit No.
10.11	First Amendment to Employment Agreement with David P. Williams dated July 9, 2009.	Form 10-Q 7/31/09, **	10.02
10.12	Employment Agreement with Timothy S. O'Toole dated May 6, 2007.	Form 8-K 5/7/07, **	10.02
10.13	First Amendment to Employment Agreement with Timothy S. O'Toole dated July 9, 2009.	Form 10-Q 7/31/09,**	10.3
10.14	Employment Agreement with Kevin J. McNamara dated May 3, 2008.	Form 8-K 5/6/08, **	10.01
10.15	First Amendment to Employment Agreement with Kevin J. McNamara dated July 9, 2009.	Form 10-Q 7/31/09,**	10.1
10.16	Registration Rights Agreement, dated May 14, 2007 by and among Chemed Corporation, J.P. Morgan Securities, Inc. and Citigroup Global Markets Inc.	Form 8-K 5/17/07	10.5
10.17	Confirmation of Convertible Note Hedge, dated May 8, 2007 between Chemed Corporation and J.P. Morgan Chase Bank, NA.	Form 8-K 5/17/07	10.1
10.18	Confirmation of Convertible Note Hedge, dated May 8, 2007 between Chemed Corporation and Citibank, NA.	Form 8-K 5/17/07	10.2
10.19	Form of Convertible Note Warrant Transaction, dated May 8, 2007 between Chemed Corporation and Citibank, NA.	Form 8-K 5/17/07	10.4
10.20	Form of Convertible Note Warrant Transaction, dated May 8, 2007 between Chemed Corporation and J.P. Morgan Chase Bank, NA.	Form 8-K 5/17/07	10.5
10.21	Excess Benefits Plan, as restated and amended, effective June 1, 2001	Form 10-K 3/12/04, **	10.24
10.22	Amendment No. 1 to Excess Benefits Plan, effective July 1, 2002	Form 10-K 3/12/04, **	10.25

Exhibit Number		Page Number or Incorporation by Reference: File No. and Filing Date	Previous Exhibit No.
10.23	Amendment No. 2 to Excess Benefits Plan, effective November 7, 2003	Form 10-K 3/12/04, **	10.26
10.24	Non-Employee Directors' Deferred Compensation Plan	Form 10-K 3/24/88, **	10.10
10.25	Chemed/Roto-Rooter Savings & Retirement Plan, effective January 1, 1999	Form 10-K 3/25/99, **	10.25
10.26	First Amendment to Chemed/Roto-Rooter Savings & Retirement Plan effective September 6, 2000	Form 10-K 3/28/02, **	10.22
10.27	Second Amendment to Chemed/Roto-Rooter Savings & Retirement Plan effective January 1, 2001	Form 10-K 3/28/02, **	10.23
10.28	Third Amendment to Chemed/Roto-Rooter Savings & Retirement Plan effective December 12, 2001	Form 10-K 3/28/02, **	10.24
10.29	Directors Emeriti Plan	Form 10-Q 5/12/88, **	10.11
10.30	Change in Control Severance Plan as amended July 9, 2009.	Form 10-Q 7/31/09, **	10.05
10.31	Senior Executive Severance Policy as amended July 9, 2009.	Form 10-Q 7/31/09, **	10.04
10.32	Roto-Rooter Deferred Compensation Plan No. 1, as amended January 1, 1998	Form 10-K 3/28/01, **	10.37
10.33	Roto-Rooter Deferred Compensation Plan No. 2	Form 10-K 3/28/01, **	10.38
10.34	Agreement and Plan of Merger, dated as of December 18, 2003, among Roto-Rooter, Inc., Marlin Merger Corp. and Vitas Healthcare Corporation	Form 8-K 12/19/03	99.2
10.35	Credit Agreement, dated as of May 2, 2007, among Chemed Corporation, the lenders from time to time parties thereto and J. P. Morgan Chase Bank, NA, as Administrative Agent.	Form 8-K 5/07/07	10.01
10.35a	Credit Agreement Exhibits, dated as of May 2, 2007, among Chemed Corporation, the lenders from time to time parties thereto and J.P. Morgan Chase Bank, NA, as Administrative Agent	*	
10.35b	Credit Agreement Schedules, dated as of May 2, 2007, among Chemed Corporation, the lenders from time to time parties thereto and J.P. Morgan Chase Bank, NA, as Administrative Agent	*	

Exhibit Number		Page Number or Incorporation by Reference: File No. and Filing Date	Previous Exhibit No.
10.36	Form of Restricted Stock Award	Form 10-K 3/28/05, **	10.50
10.37	Form of Stock Option Grant	Form 10-K 3/28/05, **	10.51
12	Computation of Ratio of Earnings to Fixed Charges	*	
13	2010 Annual Report to Stockholders	*	
14	Policies on Business Ethics of Chemed Corporation	Form 10-K 3/12/04	14
21	Subsidiaries of Chemed Corporation	*	
23	Consent of Independent Registered Public Accounting Firm	*	
24	Powers of Attorney	*	
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	*	
101.INS	XBRL Instance Document	*	
101.SCH	XBRL Extension Schema	*	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	*	
101.LAB	XBRL Taxonomy Extension Label Linkbase	*	

Exhibit Number		Page Number or Incorporation by Reference: File No. and Filing Date	Page Number or Incorporation by Reference: Previous Exhibit No.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	*	

* Filed herewith.

** Management contract or compensatory plan or arrangement.

EXHIBIT A-1

FORM OF BORROWER'S IN-HOUSE COUNSEL'S OPINION

Attached

May 2, 2007

To each of the Agents and the
Lenders party to the Financing
Agreement referenced below

Re: Chemed Corporation

Ladies and Gentlemen:

I am General Counsel to Chemed Corporation, a Delaware corporation (the " Borrower"), and in such capacity have acted as counsel to the Borrower and the subsidiaries of the Borrower identified on Schedule I hereto (the "Subsidiaries" and together with the Borrower, collectively, the " Loan Parties"), in connection with the Credit Agreement of even date herewith (the "Credit Agreement"), by and among the Borrower, the lenders party thereto (each a "Lender" and collectively, the "Lenders") and JPMorgan Chase Bank, N.A. (in such capacity, the "Administrative Agent"). This opinion is being delivered to you pursuant to Section 4.1.5(a) of the Credit Agreement. All capitalized terms used and not defined herein have the same meanings herein as set forth in the Credit Agreement.

In that connection, I have examined, caused the examination of, or am otherwise familiar with, originals, or copies certified or otherwise identified to my satisfaction, of such documents, corporate records and other instruments as I have deemed necessary or appropriate for purposes of this opinion, including (i) the Credit Agreement, (ii) the Pledge and Security Agreement, (iii) the Guaranty Agreement and (iv) charter and by-laws or other formation documents, as applicable, for each Loan Party. The documents described in clauses (i), (ii) and (iii) and of the immediately preceding sentence are sometimes referred to as the "Specified Loan Documents". I have also relied, with respect to certain factual matters, on the representations and warranties of each Loan Party contained in the Specified Loan Documents and have assumed compliance by each Loan Party with the terms of the Specified Loan Documents.

In rendering my opinion, I have assumed (i) the due authorization of the Specified Loan Documents by all parties thereto other than the Subsidiaries incorporated in states other than the State of Delaware that are identified on Schedule II hereto (the " Non-Delaware Subsidiaries") and (ii) each party to the Specified Loan Documents (other than the Non-Delaware Subsidiaries) has the full power, authority and legal right to enter into and perform its obligations under the Specified Loan Documents to which it is a party.

Based upon the foregoing, and subject to the qualifications hereinafter set forth, I am of the opinion that:

1. Each of the Non-Delaware Subsidiaries (other than Vitas Healthcare of Texas, L.P.) has all requisite corporate power and authority to conduct its business as now conducted and to execute and deliver each Specified Loan Document to which it is a party, and to consummate the transactions contemplated by the Specified Loan Documents to which it is a party. Vitas Healthcare of Texas, L.P. has the limited liability partnership power and authority to conduct its business as now conducted and to execute and deliver each Specified Loan Document to which it is a party, and to consummate the transactions contemplated by the Specified Loan Documents to which it is a party. Each of the Non-Delaware Subsidiaries is in good standing in the laws of its respective State of Incorporation (as identified on Schedule II hereto).

2. Each Loan Party is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction in which the character of the properties owned or leased by it or in which the transaction of its business makes such qualification necessary, except in jurisdictions where the absence of any such qualification could not reasonably be expected to result in a Material Adverse Effect.

3. The execution and delivery by each Loan Party of each Specified Loan Document to which such Loan Party is a party, as applicable, and the performances by such Loan Party of its obligations thereunder, (a) have been duly authorized by all necessary corporate action, limited partnership action or limited liability company action, as applicable, and (b) do not contravene its charter or by-laws or other formation documents, as applicable.

4. The execution and delivery by each Loan Party of each Specified Loan Document to which it is a party and the performances by such Loan Party of its obligations thereunder, (a) do not violate the terms of any indenture, mortgage, deed of trust, loan agreement, lease agreement or any other agreement known to me to which it or any of its properties may be bound and the violation of which could reasonably be expected to have, singly or in the aggregate, a Material Adverse Effect and (b) do not result in the creation of any lien, security interest or other charge or encumbrance upon or with respect to any of its properties pursuant to the terms of any contractual restriction binding on it or any of its properties that could reasonably be expected to have, singly or in the aggregate, a Material Adverse Effect, other than pursuant to or as permitted by the Loan Documents. My opinion does not extend to compliance by any Loan Party with the Senior Unsecured Indenture Documents or any financial ratio or limitation in any contractual restriction expressed as a dollar amount (or an amount expressed in another currency) or to performance under any contractual restriction in the Specified Loan Documents to the extent it restricts actions required under the agreements in clause (a) of the preceding sentence.

5. Each Specified Loan Document has been duly executed and delivered by each Loan Party which is a party thereto.

6. The securities described on Schedule III (the “Pledged Securities”) have been duly authorized and validly issued, are fully paid and nonassessable and the Pledge and Security Agreement accurately identifies the Pledged Securities.

7. To my knowledge, there is no pending or threatened action, suit or proceeding involving any Loan Party before any court or other Governmental Authority or any arbitrator that could reasonably be expected to have a Material Adverse Effect.

8. No authorization, approval or other action by, and no notice to, consent of, order of or filing with, any United States Federal or Florida, Iowa, Massachusetts, Nevada, Ohio or Texas governmental authority is required to be made or obtained by any of the Non-Delaware Subsidiaries in connection with the execution, delivery and performance by any Non-Delaware Subsidiary of the Specified Loan Documents to which it is a party, other than (i) such reports to United States governmental authorities regarding international capital and foreign currency transactions as may be required pursuant to 31 C.F.R. Part 128, (ii) those that have been made or obtained and are in full force and effect or as to which the failure to be made or obtained or to be in full force and effect should not result, individually or in the aggregate, in a material adverse effect on Borrower and its Subsidiaries, taken as a whole, (iii) such registrations, filings and approvals under Federal or state laws as may be necessary in connection with the exercise of remedies or sale of collateral or the granting of additional security interests or guarantees pursuant to the Specified Loan Documents, (iv) such registrations, filings or approvals that are required in order to perfect or record security interests granted under the Specified Loan Documents and (v) such registrations, filings and approvals that may be required because of the legal or regulatory status of any Lender or because of any other facts specifically pertaining to any Lender.

9. No Loan Party is required to register as an "investment company" as such term is defined in the Investment Company Act of 1940.

I understand that you are satisfying yourselves as to the status under Section 548 of the Bankruptcy Code and applicable state fraudulent conveyance laws of the obligations of the Loan Parties under the Loan Documents and I express no opinion thereon. I also express no opinion as to the application or effect of any health care laws or regulations to which Vitas Healthcare Corporation or any of its subsidiaries is subject or the necessity of any authorization, approval or action by, or any notice to, consent of, order of, or a filing with, any Governmental Authority pursuant to any such laws or regulations.

I am admitted to practice only in the State of Ohio and I express no other opinion as to matters governed by any laws other than the laws of Delaware, Florida, Iowa, Massachusetts, Nevada, Ohio and Texas and the Federal law of the United States of America.

My opinion is rendered only to the Administrative Agent and the Lenders under the Credit Agreement and is solely for their benefit in connection with the above transactions. In addition, I hereby consent to reliance on this opinion by a permitted assign of a Lender's interest in the Credit Agreement, provided that such permitted assign becomes a Lender on or prior to the 90th day after the date of this opinion. I am opining as to the matters herein only as of the date hereof, and, while you are authorized to deliver copies of this opinion to such permitted assigns and they are permitted to rely on this opinion, the rights to do so do not imply any obligation on my part to update this opinion. This opinion may not be relied upon by any other person or for any other purpose or used, circulated, quoted or otherwise referred to for any other purpose.

Very truly yours,

Schedule I

Loan Party	Jurisdiction of Organization
COMFORT CARE HOLDINGS CO.	Nevada
Jet Resource, Inc.	Delaware
ROTO-ROOTER CORPORATION	Iowa
ROTO-ROOTER SERVICES COMPANY	Iowa
NUROTOCO OF MASSACHUSETTS, INC.	Massachusetts
Consolidated HVAC, Inc.	Ohio
Roto-Rooter Group, Inc.	Delaware
R.R. UK, Inc.	Delaware
ROTO-ROOTER DEVELOPMENT COMPANY	Delaware
Vitas Healthcare Corporation	Delaware
VITAS Healthcare Corporation of Arizona	Delaware
VITAS Healthcare Corporation of Georgia	Delaware
Vitas Healthcare Corporation of California	Delaware
Vitas Healthcare Corporation of Central Florida	Delaware
Vitas Healthcare Corporation of Florida	Florida
Vitas Healthcare Corporation of Illinois	Delaware
VITAS HEALTHCARE CORPORATION OF OHIO	Delaware
Vitas Healthcare Corporation Atlantic	Delaware
Vitas Healthcare Corporation Midwest	Delaware
VITAS HME Solutions, Inc.	Delaware
Vitas Holdings Corporation	Delaware
Hospice Care Incorporated	Delaware
VITAS CARE SOLUTIONS, INC.	Delaware
Vitas Hospice Services, L.L.C.	Delaware
Vitas Healthcare of Texas, L.P.	Texas

Schedule II

Non-Delaware Subsidiary	Jurisdiction of Organization
COMFORT CARE HOLDINGS CO.	Nevada
ROTO-ROOTER CORPORATION	Iowa
ROTO-ROOTER SERVICES COMPANY	Iowa
NUROTOCO OF MASSACHUSETTS, INC.	Massachusetts
Consolidated HVAC, Inc.	Ohio
Vitas Healthcare Corporation of Florida	Florida
Vitas Healthcare of Texas, L.P.	Texas

Schedule III

Issuer	Grantor	Shares of Common Stock owned by the Grantor Subject to Pledge
COMFORT CARE HOLDINGS CO.	CHEMED CORPORATION	1,000
Jet Resource, Inc.	CHEMED CORPORATION	1,000
Roto-Rooter Group, Inc.	CHEMED CORPORATION	1,000
ROTO-ROOTER DEVELOPMENT COMPANY	ROTO-ROOTER CORPORATION	1,000
ROTO-ROOTER CORPORATION	Roto-Rooter Group, Inc.	1,000
ROTO-ROOTER SERVICES COMPANY	Roto-Rooter Group, Inc.	1,000
R.R. UK, Inc.	Roto-Rooter Group, Inc.	1000
NUROTOCO OF MASSACHUSETTS, INC.	ROTO-ROOTER SERVICES COMPANY	1 999
Consolidated HVAC, Inc.	ROTO-ROOTER SERVICES COMPANY	1,000
Vitas Healthcare Corporation	COMFORT CARE HOLDINGS CO.	1,000
Vitas Healthcare Corporation of California	Vitas Hospice Services, L.L.C.	1,000
Vitas Healthcare Corporation of Central Florida	Vitas Hospice Services, L.L.C.	1,000
Vitas Healthcare Corporation of Florida	Vitas Hospice Services, L.L.C.	100
Vitas Healthcare Corporation of Illinois	Vitas Hospice Services, L.L.C.	1,000
VITAS HEALTHCARE CORPORATION OF OHIO	Vitas Hospice Services, L.L.C.	1,000
VITAS HEALTHCARE CORPORATION ATLANTIC	Vitas Hospice Services, L.L.C.	1,000
VITAS HEALTHCARE CORPORATION MIDWEST	Vitas Hospice Services, L.L.C.	1,000
VITAS HME Solutions, Inc.	Vitas Hospice Services, L.L.C.	1,000
Vitas Holdings Corporation	Vitas Hospice Services, L.L.C.	1,000
Hospice Care Incorporated	Vitas Hospice Services, L.L.C.	1,000
VITAS CARE SOLUTIONS, INC.	Vitas Hospice Services L.L.C.	1,000
VITAS Healthcare Corporation of Georgia	Vitas Hospice Services, L.L.C.	1,000
VITAS Healthcare Corporation of Arizona	Vitas Hospice Services, L.L.C.	1,000

EXHIBIT A-2

FORM OF CRAVATH SWAINE & MOORE LLP OPINION

Attached

May 2, 2007

Chemed Corporation

Ladies and Gentlemen:

We have acted as special New York counsel to Chemed Corporation, a Delaware corporation (the "Borrower"), in connection with the Credit Agreement of even date herewith (the "Credit Agreement"), among the Borrower, the lenders party thereto (collectively, the "Lenders") and JPMorgan Chase Bank, N.A., as administrative agent for the Lenders (in such capacity, the "Administrative Agent"). This opinion is being delivered to you pursuant to Section 4.1.5(b) of the Credit Agreement. Capitalized terms used but not defined herein have the meanings assigned to them in the Credit Agreement.

In that connection, we have examined originals, or copies certified or otherwise identified to our satisfaction, of such documents, corporate records and other instruments as we have deemed necessary or appropriate for purposes of this opinion, including:

(i) the Credit Agreement,

(ii) the Pledge and Security Agreement, and

(iii) the Guaranty Agreement,

The documents described in clauses (i), (ii) and (iii) of the immediately preceding sentence are sometimes referred to herein as the "Agreements". We have also relied, with respect to certain factual matters, on the representations and warranties of each Credit Party contained in the Agreements and have assumed compliance by each Credit Party with the terms of the Agreements.

In rendering our opinion, we have assumed (a) the genuineness of all signatures, (b) the due existence of each Credit Party, (c) that each Credit Party has all necessary power, authority and legal right to execute and deliver the Agreements to which it is a party and to perform its obligations thereunder, (d) the due authorization, execution and delivery of the Agreements by all parties thereto, (e) the authenticity of all documents submitted to us as originals, (f) the conformity to original documents of all documents submitted to us as copies and (g) that the choice of New York law contained in the Agreements was not qualified by giving effect to Federal laws applicable to national banks.

Based on the foregoing and subject to the qualifications hereinafter set forth, we are of opinion as follows:

1. The execution and delivery by each Credit Party of the Agreements to which it is a party, the performance by each Credit Party of its obligations thereunder and the grant by each Grantor and Pledgor (each as defined in the Pledge and Security Agreement) of security interests pursuant to the Pledge and Security Agreement will not violate any law, rule or regulation of the United States of America or the State of New York.

2. To the extent governed by New York law, each Agreement constitutes a legal, valid and binding obligation of each Credit Party party thereto, enforceable against such Credit Party in accordance with its terms, subject in each case to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and other similar laws relating to or affecting creditors' rights generally from time to time in effect and to general principles of equity (including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing), regardless of whether considered in a proceeding in equity or at law. The foregoing opinion is subject to the following qualifications: (i) certain provisions of the Agreements are or may be unenforceable in whole or part under the laws of the State of New York, but the inclusion of such provisions does not affect the validity of the Agreements or the liens and security interests purported to be created by the Agreements, and the Agreements contain adequate provisions for the practical realization of the principal rights and benefits intended to be afforded thereby, (ii) insofar as provisions contained in the Agreements provide for indemnification or limitations on liability, the enforceability thereof may be limited by public policy considerations, (iii) the availability of a decree for specific performance or an injunction is subject to the discretion of the court requested to issue any such decree or injunction and (iv) we express no opinion as to the effect of the laws of any jurisdiction other than the State of New York where any Lender may be located or where enforcement of the Agreements may be sought that limit the rates of interest legally chargeable or collectible.

3. No authorization, approval or other action by, and no notice to, consent of, order of or filing with, any United States Federal or New York State governmental authority is required to be made or obtained by any Loan Party in connection with the execution, delivery and performance by any Credit Party of the Agreements to which it is a party or the grant by each Grantor and Pledgor of the security interests under the Pledge and Security Agreement, other than (i) such reports to United States governmental authorities regarding international capital and foreign currency transactions as may be required pursuant to 31 C.F.R. Part 128, (ii) those that have been made or obtained and are in full force and effect or as to which the failure to be made or obtained or to be in full force and effect should not result, individually or in the aggregate, in a material adverse effect on Borrower and its Subsidiaries, taken as a whole, (iii) such registrations, filings and approvals under Federal or state laws as may be necessary in connection with the exercise of remedies or sale of collateral or the granting of additional security interests or guarantees pursuant to the Agreements, (iv) such registrations, filings or approvals that are required in order to perfect or record security interests granted under the Agreements and (v) such registrations, filings and approvals that may be required because of the legal or regulatory status of any Lender or because of any other facts specifically pertaining to any Lender.

4. Assuming that the Borrower complies with the provisions of the Credit Agreement relating to the use of proceeds of the Loans, the making of the Loans under the Credit

Agreement on the date hereof does not violate Regulation T, U or X of the Board of Governors of the Federal Reserve System.

5. The provisions of the Pledge and Security Agreement are sufficient to create in favor of the Administrative Agent a security interest in all right, title and interest of each Credit Party party thereto in such of the Collateral (as defined therein) as constitutes “accounts”, “chattel paper”, “documents”, “equipment”, “general intangibles”, “goods”, “instruments”, “inventory” and “investment property” within the meaning of the Uniform Commercial Code of the State of New York as in effect on the date hereof (the “New York UCC”) (such of the Collateral being hereinafter referred to as the “ Specified UCC Collateral”), to the extent that the creation of security interests in the Specified UCC Collateral is governed by the New York UCC.

6. Upon delivery to and the continued possession by the Administrative Agent, in each case in the State of New York, of all certificates evidencing the securities described in Annex I hereto and pledged on the date hereof under the Pledge and Security Agreement that constitute certificated securities within the meaning of Article 8 of the New York UCC (the “Pledged Certificates”), issued or endorsed in the name of the Administrative Agent or in blank or together with stock powers properly executed in the name of the Administrative Agent or in blank with respect thereto, the security interest in favor of the Administrative Agent for the benefit of the Holders of Secured Obligations in such Pledged Certificates will be perfected. The security interest in such Pledged Certificates will be prior to any security interest, lien, charge or encumbrance that must be perfected by possession or filing under the New York UCC, to the extent that the creation and perfection of security interests in such Pledged Certificates is governed by the New York UCC.

The opinion expressed in this paragraph 6 is based on the assumption that the Administrative Agent has obtained control (for purposes of Article 9 of the New York UCC) of, and the Holders of Secured Obligations have acquired their security interest in, the Pledged Certificates for value. For purposes of the foregoing sentence, the term “value” shall have the meaning given to such term in the New York UCC.

7. Our opinions expressed in paragraphs 5 and 6 are further qualified as follows:

1. we express no opinion as to (i) rights in or title to the Pledged Certificates or any Collateral held by any Credit Party or (ii) the completeness or accuracy of the description in such documents of any Collateral;

2. we express no opinion as to the creation or perfection of any security interests (i) in any item of Collateral other than (as to creation and perfection) the Pledged Certificates and (as to creation) the Specified UCC Collateral or (ii) in any item of Collateral that is expressly excluded from the application of the New York UCC pursuant to Section 9-109 thereof;

3. we express no opinion as to the perfection of any security interest in any “proceeds” (as such term is defined in the New York UCC) and note that the creation and

perfection of any such interest is limited to the extent set forth in Section 9-315 of the New York UCC;

4. except as specifically set forth in paragraph 6, we express no opinion as to the priority of any security interest created under the Agreements, and we express no opinion in paragraph 6 as to the relative priority of the security interest in the Pledged Certificates as against (i) any claim or lien in favor of the United States of America or any agency or instrumentality thereof (including, without limitation, Federal tax liens and liens under Title IV of the Employee Retirement Income Security Act of 1974, as amended), (ii) the claim of a lien creditor to the extent set forth in Section 9-317 or 9-323 of the New York UCC or (iii) another secured party with a perfected security interest in other property of any Credit Party to the extent any item of Collateral constitutes proceeds of such other creditor's property to the extent set forth in Section 9-322 of the New York UCC or (iv) in the case of certificated securities, negotiable documents or instruments (as defined in Section 9-102(a)(47) of the New York UCC), another secured party with a security interest perfected without filing or the taking of possession to the extent set forth in Section 9-312(e) of the New York UCC ;

5. in the case of property that becomes Collateral after the date hereof, Section 552 of Title 11 of the United States Code (the " Bankruptcy Code") limits the extent to which property acquired by a debtor after the commencement of a case under the Bankruptcy Code may be subject to a security interest arising from a security agreement entered into by the debtor before the commencement of such case;

6. we express no opinion as to the validity or enforceability of any security interest in goods (as defined in the New York UCC) that have been bought by a buyer in the ordinary course of business (as defined in Section 1-201 of the New York UCC);

7. we express no opinion regarding any copyrights, patents, trademarks, service marks or other intellectual property, the proceeds thereof, or money due with respect to the lease, license or use thereof except to the extent Article 9 of the New York UCC may be applicable to the foregoing, and we express no opinion as to the effect of any Federal laws relating to copyrights, patents, trademarks, service marks or other intellectual property on the opinions expressed herein;

8. we express no opinion as to security interests in any item of collateral subject to any restriction on or prohibition against assignment or transfer contained in or otherwise applicable to such item of collateral or any contract, agreement, license, permit, security, instrument or document constituting, evidencing or relating to such item, except to the extent that any such restriction or prohibition is rendered ineffective pursuant to any of Sections 9-406 through 9-409, inclusive, of the New York UCC. We note that even though the New York UCC may render such a restriction or prohibition ineffective for purposes of creation or perfection of a security interest, nonetheless, in many cases, such a security interest may represent only limited rights in the related items of collateral and be subject to various restrictions (including restrictions on rights of use, assignment and enforcement); and

9. we express no opinion as to any Collateral constituting claims against any government or governmental agency, including any Collateral that is subject to the Federal Assignment of Claims Act.

We express no opinion herein as to any provision in any Agreement that (a) relates to the subject matter jurisdiction of any Federal court of the United States of America, or any Federal appellate court, to adjudicate any controversy related to the Agreements (such as the provision found in Section 15.2 of the Credit Agreement), (b) contains a waiver of an inconvenient forum (such as the provision found in Section 15.2 of the Credit Agreement), (c) relates to a right of setoff in respect of purchases of interests in loans (such as the provision found in Section 11.2 of the Credit Agreement) or with respect to parties that may not hold mutual debts (such as the provision found in Section 11.1 of the Credit Agreement), (d) provides for liquidated damages, (e) relates to the waiver of rights to jury trial (such as the provision found in Section 15.3 of the Credit Agreement), (f) relates to governing law to the extent that it purports to affect the choice of law governing perfection and the effect of perfection and non-perfection of security interests or (h) relates to any arrangement or similar fee payable to any arranger (including the Arranger and the Administrative Agent) of the commitments or loans under the Credit Agreement or any fee not set forth in the Agreements. We also express no opinion as to (v) the enforceability of the provisions of any Agreement to the extent that such provisions constitute a waiver of illegality as a defense to performance of contract obligations or any other defense to performance which cannot, as a matter of law, be effectively waived, (w) whether a state court outside the State of New York or a Federal court of the United States would give effect to the choice of New York law provided for in the Agreements, (x) with respect to any Credit Party organized under the laws of the State of Delaware, the effect of any provision in the certificate of incorporation of such Credit Party of the type permitted by Section 102(b)(2) of the General Corporation Law of the State of Delaware, (y) the effect of qualifying the choice of New York law by giving effect to Federal laws applicable to national banks or (z) the application or effect of any laws or regulations relating to the provision of healthcare products or services to which Vitas Healthcare Corporation or any Credit Party or any of its subsidiaries is subject or the necessity of any authorization, approval or action by, or any notice to, consent of, order of, or a filing with, any Governmental Authority pursuant to any such laws or regulations.

We understand that you are satisfying yourselves as to the status under Section 548 of the Bankruptcy Code and applicable state fraudulent conveyance laws of the obligations of each Credit Party and the security interests of the Agent and the Lenders under the Agreements, and we express no opinion thereon.

We are admitted to practice only in the State of New York, and we express no opinion as to matters governed by any laws other than the laws of the State of New York and the Federal law of the United States of America. Our opinions relating to security interests are limited to Article 8 and Article 9 of the New York UCC and do not address (i) laws of jurisdictions other than New York, and laws of New York except for Article 8 or Article 9, as the case may be, (ii) collateral of a type not subject to Article 8 or Article 9 of the New York UCC, (iii) what law governs perfection and the effect of perfection or non-perfection of such security interests or (iv) the effect, if any, of laws of jurisdictions other than New York on the creation, perfection or priority of such security interests.

This opinion is rendered only to the Administrative Agent and the Lenders under the Credit Agreement and is solely for their benefit in connection with the above transactions. In addition, we hereby consent to reliance on this opinion by a permitted assign of a Lender's interest in the Credit Agreement, provided that such permitted assign becomes a Lender on or prior to the 90th day after the date of this opinion. We are opining as to the matters herein only as of the date hereof, and, while you are authorized to deliver copies of this opinion to such permitted assigns and they are permitted to rely on this opinion, the rights to do so do not imply any obligation on our part to update this opinion. This opinion may not be relied upon by any other person or for any other purpose or used, circulated, quoted or otherwise referred to for any other purpose.

Very truly yours,

JPMorgan Chase Bank, N.A., as
Administrative Agent for the Lenders
under the Pledge and Security
Agreement referred to above,
JPMorgan Chase Bank, N.A., as Administrative
Agent under the Credit Agreement
referred to above, and each of the lending
and other financial institutions
party to the Credit Agreement

In care of:
JPMorgan Chase Bank, N.A.
8044 Montgomery Road, Floor 3
Cincinnati, OH 45236

Annex I

Issuer	Loan Party	Certificate Number
COMFORT CARE HOLDINGS CO.	CHEMED CORPORATION	1
Jet Resource, Inc.	CHEMED CORPORATION	1
Roto-Rooter Group, Inc.	CHEMED CORPORATION	2
ROTO-ROOTER DEVELOPMENT COMPANY	ROTO-ROOTER CORPORATION	1
ROTO-ROOTER CORPORATION	Roto-Rooter Group, Inc.	2
ROTO-ROOTER SERVICES COMPANY	Roto-Rooter Group, Inc.	226
R.R. UK, Inc.	Roto-Rooter Group, Inc.	1
NUROTOCO OF MASSACHUSETTS, INC.	ROTO-ROOTER SERVICES COMPANY	1 2
Consolidated HVAC, Inc.	ROTO-ROOTER SERVICES COMPANY	2
Vitas Healthcare Corporation	COMFORT CARE HOLDINGS CO.	
Vitas Healthcare Corporation of California	Vitas Hospice Services, L.L.C.	2
Vitas Healthcare Corporation of Central Florida	Vitas Hospice Services, L.L.C.	2
Vitas Healthcare Corporation of Florida	Vitas Hospice Services, L.L.C.	4
Vitas Healthcare Corporation of Illinois	Vitas Hospice Services, L.L.C.	1
VITAS HEALTHCARE CORPORATION OF OHIO	Vitas Hospice Services, L.L.C.	2
VITAS HEALTHCARE CORPORATION ATLANTIC	Vitas Hospice Services, L.L.C.	2
VITAS HEALTHCARE CORPORATION MIDWEST	Vitas Hospice Services, L.L.C.	1
VITAS HME Solutions, Inc.	Vitas Hospice Services, L.L.C.	2
Vitas Holdings Corporation	Vitas Hospice Services, L.L.C.	3
Hospice Care Incorporated	Vitas Hospice Services, L.L.C.	2
VITAS CARE SOLUTIONS, INC.	Vitas Hospice Services L.L.C.	1
VITAS Healthcare Corporation of Georgia	Vitas Hospice Services, L.L.C.	5
VITAS Healthcare Corporation of Arizona	Vitas Hospice Services, L.L.C.	1

EXHIBIT A-3

FORM OF RICHARDS, LAYTON & FINGER, P.A. OPINION

Attached

EXHIBIT B

FORM OF COMPLIANCE CERTIFICATE

To: The Lenders under the
Credit Agreement described below

This Compliance Certificate is furnished pursuant to that certain Credit Agreement, dated as of May [__], 2007 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), among Chemed Corporation, a Delaware corporation, as the Borrower (the "Borrower"), certain financial institutions from time to time party thereto as lenders (the "Lenders") and JPMorgan Chase Bank, National Association, as Administrative Agent for itself and the other Lenders (the "Administrative Agent"). Unless otherwise defined herein, capitalized terms used in this Compliance Certificate have the meanings ascribed thereto in the Credit Agreement.

THE UNDERSIGNED HEREBY CERTIFIES THAT:

1. I am the duly elected __________ of the Borrower; [1] and

2. Schedule I attached hereto sets forth financial data and computations evidencing the Borrower's compliance with certain covenants of the Credit Agreement, all of which data and computations are true and correct.

The foregoing certifications, together with the computations set forth in Schedule I hereto and the financial statements delivered with this Certificate in support hereof, are made and delivered this ___ day of __________, 20__.

CHEMED CORPORATION, as the Borrower

By: ____________________________________
Name:
Title: [Chief Financial Officer][Treasurer]

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1 Per Section 6.1.3 of the Credit Agreement, this certificate is to be completed and executed by the chief financial officer or treasurer.

SCHEDULE I TO COMPLIANCE CERTIFICATE

Compliance as of _________ ___, 20___ (the "Compliance Date") with
Provisions of Sections [6.20], [6.21], [6.22], [6.23] and [6.26] of the Credit Agreement

I. FINANCIAL COVENANTS

A. LEVERAGE RATIO (Section 6.20)

(1)	Consolidated Funded Indebtedness			
	(a)	Consolidated Indebtedness (includes only amounts classified on balance sheet as long-term Indebtedness)		$___________
	(b)	Stated or face amount of all Letters of Credit (other than Letters of Credit to the extent collateralized by cash or Cash Equivalent Instruments)	+	$___________
	(c)	Consolidated Funded Indebtedness (sum of (a) plus (b))		$___________
(2)	Consolidated EBITDA			
	(a)	Consolidated Net Income from continuing operations		$___________
	(b)	Consolidated Interest Expense	+	$___________
	(c)	Expense for taxes paid or accrued	+	$___________
	(d)	Depreciation	+	$___________
	(e)	Amortization expense of the Borrower and its consolidated Subsidiaries (including amortization recorded in connection with the application of Financial Accounting Standard No. 142 (Goodwill and Other Intangibles))	+	$___________
	(f)	Dividends, distributions and payments under any employee stock award or incentive plans plus any employment taxes, cash fringes and employee benefit charges payable in connection therewith	+	$___________

(g)	All other non-cash charges of the Borrower and its consolidated Subsidiaries (excluding any such non-cash charge to the extent it represents an accrual of or reserve for cash expenditures in any future period)	+	$____________
(h)	Interest income and non-cash items of income of the Borrower and its consolidated Subsidiaries	-	$____________
(i)	The aggregate amount of the awards remitted by the Borrower to its senior management under the current Multi-Year Management Incentive Plans (provided that no more than $5,000,000 of cash compensation, payments or awards remitted to senior management shall be included in this calculation)	+	$____________
(j)	Non-cash charges arising from compensation expense as a result of Financial Accounting Standards Board Statement 123R, "Share Based Payments"	+	$____________
(k)	Any loss incurred by the Borrower as a result of the early extinguishment of Indebtedness, including in connection with redemption of the Senior Unsecured Notes	+	$____________
(l)	All non-recurring costs and expenses incurred in connection with the consummation of any Permitted Acquisition, Investment, asset disposition, issuance or repayment of debt, issuance of equity securities refinancing transaction or amendment or modification of any debt instrument (in each case, including any such transaction consummated prior to the Closing Date and any such transaction undertaken but not yet completed) and any non-recurring charges or non-recurring costs incurred as a result of such transaction, including all such costs, expenses and charges in connection with the Convertible Note Offering and the redemption, and refinancing pursuant to the Credit Agreement, of the Senior Unsecured Notes	+	$____________
(m)	Yellow Pages Advertising Expense	+	$____________

(n) Up to $25,000,000 in respect of litigation costs and expenses (including settlement amounts) related to matters settled prior to the Closing Date and matters disclosed in the Borrower's Form 10-Q Quarterly report filed with the SEC for the fiscal quarter ended March 31, 2007 + $____________

(o) Consolidated EBITDA = $____________

(3) Leverage Ratio (Ratio of A(1)(c) to A(2)(o)) _______to1.00

(4) Maximum Leverage Ratio for any fiscal quarter is required to be equal to or less than the ratio set forth below opposite the final day of such Fiscal Quarter:

Fiscal Quarter Ending	Maximum Leverage Ratio
As of the Closing Date	3.75 to 1.00
June 30, 2007	3.75 to 1.00
September 30, 2007	3.75 to 1.00
December 31, 2007	3.75 to 1.00
March 31, 2008	3.75 to 1.00
Each fiscal quarter thereafter	3.50 to 1.00

B. FIXED CHARGE COVERAGE RATIO (Section 6.21)

(1)

(a) Consolidated EBITDA (A(2)(o) above) $____________

(b) Consolidated Capital Expenditures - $____________

(c) Total: $____________

(2)

(a) Consolidated Interest Expense $____________

(b) Consolidated Current Maturities (including, without limitation, Capitalized Lease Obligations) + $____________

(c) Cash dividends paid on equity interests of the Borrower + $____________

(d) Expenses for cash income taxes paid + $____________

(e) Total: $____________

(3) Fixed Charge Coverage Ratio (Ratio of B(1)(c) to B(2)(e)) ________ to1.00

(4) Fixed Charge Coverage Ratio for any Fiscal Quarter is required to be equal to or greater than 1.50 to 1.00.

C. MINIMUM CONSOLIDATED NET WORTH (Section 6.22)

(1) Closing Date Net Worth Amount

(a) The aggregate amount paid to repurchase the Borrower's capital stock during the period beginning on the Closing Date and ended on the six-month anniversary thereof (or, if earlier, on the Compliance Date) $____________

(b) The excess of $350,000,000 over the lesser of $100,000,000 and (a) $____________

(2) 50% of the sum of Consolidated Net Income (if positive) earned in each fiscal quarter beginning with the fiscal quarter ending on June 30, 2007 $____________

(3) Minimum Consolidated Net Worth (the sum of C(1)(b) and C(2)): $____________

(4) State whether Consolidated Net Worth was equal to or greater than C(3) (Consolidated Net Worth is required to be greater than or equal to item C(3) at the Compliance Date) Yes/No

II. OTHER MISCELLANEOUS PROVISIONS

A. OPERATING LEASES (Section 6.23)

(1) The annual aggregate amount of liabilities of the Borrower and its Subsidiaries under Operating Leases, synthetic leases or tax ownership operating leases (not to exceed $30,000,000) $____________

B. CREDIT PARTIES' ASSET VALUE (Section 6.26)

(1) Credit Parties' Asset Value (not to be less than $700,000,000 at the end of any fiscal quarter) $____________

EXHIBIT C

FORM OF ASSIGNMENT AND ASSUMPTION AGREEMENT

This Assignment and Assumption (the "Assignment and Assumption") is dated as of the Effective Date set forth below and is entered into by and between [*Insert name of Assignor*] (the "Assignor") and [*Insert name of Assignee*] (the "Assignee"). Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (as amended, the " Credit Agreement"), receipt of a copy of which is hereby acknowledged by the Assignee. The Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, the Assignor hereby irrevocably sells and assigns to the Assignee, and the Assignee hereby irrevocably purchases and assumes from the Assignor, subject to and in accordance with the Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below, the interest in and to all of the Assignor's rights and obligations in its capacity as a Lender under the Credit Agreement and any other documents or instruments delivered pursuant thereto that represents the amount and percentage interest identified below of all of the Assignor's outstanding rights and obligations under the respective facilities identified below (including, without limitation, any letters of credit, guaranties and swingline loans included in such facilities and, to the extent permitted to be assigned under applicable law, all claims (including without limitation contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity), suits, causes of action and any other right of the Assignor against any Person whether known or unknown arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby) (the "Assigned Interest"). Such sale and assignment is without recourse to the Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by the Assignor.

1. Assignor: ______________________________

2. Assignee: ______________________________ [and is an Affiliate/Approved Fund of [*identify Lender*][2]]

3. Borrower: Chemed Corporation

4. Agent: JPMorgan Chase Bank, National Association as the Administrative Agent under the Credit Agreement

5. Credit Agreement: The Credit Agreement dated as of May [__], 2007 among the

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2 Select as applicable.

Borrower, the Lenders, and the Administrative Agent.

6. Assigned Interest:

Facility Assigned	Aggregate Amount of Commitment/Loans for all Lenders*	Amount of Commitment/Loans Assigned*	Percentage Assigned of Commitment/Loans[3]
____________[4]	$	$	________%
____________	$	$	________%
____________	$	$	________%

7. Trade Date: ________________________[5]

Effective Date: ____________, 20__ [TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER BY THE ADMINISTRATIVE AGENT.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR
[NAME OF ASSIGNOR]

By: ____
Title:

ASSIGNEE
[NAME OF ASSIGNEE]

By: ____
Title:

[Consented to and][6] Accepted:

JPMORGAN CHASE BANK, National Association, as
Administrative Agent

By: ____
Title:

---

* Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

3 Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.

4 Fill in the appropriate terminology for the types of facilities under the Credit Agreement that are being assigned under this Agreement.

5 Insert if satisfaction of minimum amounts is to be determined as of the Trade Date.

6 To be added only if the consent of the Administrative Agent is required by the terms of the Credit Agreement.

[Consented to:][7]

[CHEMED CORPORATION,
as Borrower]

By: ______________________________
Title:

[7] To be added only if the consent of the Borrower is required by the terms of the Credit Agreement.

ANNEX 1
TERMS AND CONDITIONS FOR
ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1 Assignor. The Assignor represents and warrants that (i) it is the legal and beneficial owner of the Assigned Interest, (ii) the Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby. Neither the Assignor nor any of its officers, directors, employees, agents or attorneys shall be responsible for (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency, perfection, priority, collectibility, or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document, (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document, (v) inspecting any of the property, books or records of the Borrower, or any guarantor, or (vi) any mistake, error of judgment, or action taken or omitted to be taken in connection with the Loans or the Loan Documents.

1.2. Assignee. The Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iii) agrees that its payment instructions and notice instructions are as set forth in Schedule 1 to this Assignment and Assumption, (iv) confirms that none of the funds, monies, assets or other consideration being used to make the purchase and assumption hereunder are “plan assets” as defined under ERISA and that its rights, benefits and interests in and under the Loan Documents will not be “plan assets” under ERISA, (v) agrees to indemnify and hold the Assignor harmless against all losses, costs and expenses (including, without limitation, reasonable attorneys’ fees) and liabilities incurred by the Assignor in connection with or arising in any manner from the Assignee’s non-performance of the obligations assumed under this Assignment and Assumption, (vi) it has received a copy of the Credit Agreement, together with copies of financial statements and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase the Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Lender, and (vii) attached as Schedule 1 to this Assignment and Assumption is any documentation required to be delivered by the Assignee with respect to its tax status pursuant to the terms of the Credit Agreement, duly completed and executed by the Assignee and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, the Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. The Assignee shall pay the Assignor, on the Effective Date, the amount agreed to by the Assignor and the Assignee. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts which have accrued to but excluding the Effective Date and to the Assignee for amounts which have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by, and construed in accordance with, the internal law of the State of New York.

SCHEDULE 1

ADMINISTRATIVE QUESTIONNAIRE

(Schedule to be supplied by Closing Unit or Trading Documentation Unit)

US AND NON-US TAX INFORMATION REPORTING REQUIREMENTS

(Schedule to be supplied by Closing Unit or Trading Documentation Unit)

EXHIBIT D

FORM OF LOAN/ CREDIT RELATED MONEY TRANSFER INSTRUCTIONS

To JPMorgan Chase Bank, National Association,
as Administrative Agent (the "Administrative Agent") under the Credit Agreement
described below.

Re: Credit Agreement, dated as of May [__], 2007 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), among Chemed Corporation, a Delaware corporation, as the Borrower (the " Borrower"), certain financial institutions party thereto as lenders (the "Lenders") and the Administrative Agent. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned thereto in the Credit Agreement.

The Administrative Agent is specifically authorized and directed to act upon the following standing money transfer instructions with respect to the proceeds of Advances or other extensions of credit from time to time until receipt by the Administrative Agent of a specific written revocation of such instructions by the Borrower, provided, however, that the Administrative Agent may otherwise transfer funds as hereafter directed in writing by the Borrower in accordance with Section 13.1 of the Credit Agreement or based on any telephonic notice made in accordance with Section 2.14 of the Credit Agreement.

Facility Identification Number(s) ______________________________

Customer/Account Name Chemed Corporation

Transfer Funds To ______________________________

____

For Account No. ______________________________

Reference/Attention To ______________________________

Authorized Officer (Customer Representative) Date ______________

______________________________ ______________________________

(Please Print) Signature

Bank Officer Name Date ______________

______________________________ ______________________________

(Please Print) Signature

EXHIBIT E-1

FORM OF REVOLVING LOAN NOTE

$[__________] [DATE]

CHEMED CORPORATION, a Delaware corporation (the "Borrower"), promises to pay to [LENDER] or its registered assigns (the " Lender") [_______] DOLLARS ($[_________]) or, if less, the aggregate unpaid principal amount of all Revolving Loans made by the Lender to Borrower pursuant to the Credit Agreement (as hereinafter defined), in immediately available funds at the place specified pursuant to Article II of the Credit Agreement, together with interest on the unpaid principal amount hereof at the rates and on the dates set forth in the Credit Agreement. The Borrower shall pay, in Dollars, the principal of and accrued and unpaid interest on the Revolving Loans in full on the Revolving Loan Termination Date and shall make such mandatory payments as are required to be made under the terms of Article II of the Credit Agreement.

The Lender shall, and is hereby authorized to, record on the schedule attached hereto, or to otherwise record in accordance with its usual practice, the date and amount of each Revolving Loan and the date and amount of each principal payment hereunder.

This Revolving Loan Note is one of the Notes issued pursuant to, and is entitled to the benefits of, the Credit Agreement, dated as of May [__], 2007 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the " Credit Agreement"), among the Borrower, the financial institutions from time party thereto as lenders (the "Lenders") and JPMorgan Chase Bank, National Association, as Administrative Agent, to which Credit Agreement reference is hereby made for a statement of the terms and conditions governing this Note, including the terms and conditions under which this Note may be prepaid or its maturity date accelerated. Capitalized terms used herein and not otherwise defined herein are used with the meanings attributed to them in the Credit Agreement. This Note is also entitled to the benefits of the Collateral Documents and the obligations evidenced hereby are secured by the Liens granted under the Collateral Documents.

This Note shall be governed by, and construed in accordance with, the internal laws, but without regard to the conflict of law provisions, of the State of New York, but giving effect to federal laws applicable to national banks.

CHEMED CORPORATION, as the Borrower

By: ______________________________
Name:
Title:

SCHEDULE OF REVOLVING LOANS AND PAYMENTS OF PRINCIPAL
TO
REVOLVING LOAN NOTE OF CHEMED CORPORATION
[DATE]

Date	Principal Amount of Revolving Loan	Principal Amount Paid	Unpaid Balance

EXHIBIT E-2

FORM OF TERM LOAN NOTE

$[__________] [DATE]

CHEMED CORPORATION, a Delaware corporation (the "Borrower"), promises to pay to [LENDER] or its registered assigns (the " Lender") [_______] DOLLARS ($[_________]) or, if less, the aggregate unpaid principal amount of the Term Loan made by the Lender to Borrower pursuant to the Credit Agreement (as hereinafter defined), in immediately available funds at place specified pursuant to Article II of the Credit Agreement, together with interest on the unpaid principal amount hereof at the rates and on the dates set forth in the Credit Agreement. The Borrower shall pay, in Dollars, the principal of and accrued and unpaid interest on the Term Loan in full on the Term Loan Maturity Date. The principal indebtedness evidenced hereby shall be payable in installments as set forth in Article II of the Credit Agreement with a final installment payable on the Term Loan Maturity Date.

The Lender shall, and is hereby authorized to, record on the schedule attached hereto, or to otherwise record in accordance with its usual practice, the date and amount of the Term Loan and the date and amount of each principal payment hereunder.

This Term Loan Note is one of the Notes issued pursuant to, and is entitled to the benefits of, the Credit Agreement, dated as of May [__], 2007 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the " Credit Agreement"), among the Borrower, the financial institutions from time to time party thereto as lenders (the " Lenders") and JPMorgan Chase Bank, National Association, as Administrative Agent, to which Credit Agreement reference is hereby made for a statement of the terms and conditions governing this Note, including the terms and conditions under which this Note may be prepaid or its maturity date accelerated. Capitalized terms used herein and not otherwise defined herein are used with the meanings attributed to them in the Credit Agreement. This Note is also entitled to the benefits of the Collateral Documents and the obligations evidenced hereby are secured by the Liens granted under the Collateral Documents.

This Note shall be governed by, and construed in accordance with, the internal laws, but without regard to the conflict of law provisions, of the State of New York, but giving effect to federal laws applicable to national banks.

CHEMED CORPORATION, as the Borrower

By: ______________________________

Name:

Title:

SCHEDULE OF TERM LOANS AND PAYMENTS OF PRINCIPAL
TO
TERM LOAN NOTE OF CHEMED CORPORATION
[DATE]

Date	Principal Amount of Term Loan	Maturity of Interest Period	Principal Amount Paid	Unpaid Balance

EXHIBIT F

FORM OF OFFICER'S CERTIFICATE

OFFICER'S CERTIFICATE

I, the undersigned, hereby certify to the "Administrative Agent" and the "Lenders" (each as defined below) that I am the ________________ of Chemed Corporation, a corporation duly organized and existing under the laws of the State of Delaware (the " Borrower"). Capitalized terms used herein and not otherwise defined herein are as defined in that certain Credit Agreement, dated as of May [__], 2007 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), among the Borrower, the financial institutions from time to time party thereto as lenders (the "Lenders") and JPMorgan Chase Bank, National Association, as Administrative Agent. Capitalized terms used herein shall have the meanings set forth in the Credit Agreement.

I further certify to the Administrative Agent and the Lenders, as such officer and not individually, that, pursuant to Section 6.1.3 of the Credit Agreement, as of the date hereof:

1. No Event of Default or Unmatured Event of Default has occurred and is continuing **[**other than the following (describe the nature of the Event of Default or Unmatured Event of Default and the status thereof) **].**

[2. The representations and warranties of the Borrower contained in Article V of the Credit Agreement are true and correct in all material respects on and as of the date of this Certificate to the same extent as though made on and as of the date hereof except to the extent any such representation or warranty is stated to relate solely to an earlier date, in which case such representation or warranty shall have been true and correct on and as of such earlier date.][8]

[3. Other than as disclosed in public filings with the Securities and Exchange Commission prior to the initial Credit Extension Date, no material adverse change in the business, assets, condition (financial or otherwise), or Property of the Borrower and its Subsidiaries, taken as a whole, has occurred since December 31, 2006.][9]

IN WITNESS WHEREOF, I hereby subscribe my name on behalf of the Borrower on this ____ day of ___________, 20__.

CHEMED CORPORATION, as the Borrower

By: ____

8 Bracketed language will only be included in the Officer's Certificate delivered on the Closing Date.

9 Bracketed language will only be included in the Officer's Certificate delivered on the Closing Date.

Name:
Title:

EXHIBIT G

LIST OF CLOSING DOCUMENTS

Attached

EXHIBIT 10.35b

COMMITMENT SCHEDULE

Revolving Loan Commitments

Lender	Amount of Revolving Loan Commitment	% of Aggregate Revolving Loan Commitment
JPMorgan Chase Bank, National Association	$ 40,909,090.90	23.376623371%
Citibank, N.A.	$ 25,454,545.45	14.545454543%
LaSalle Bank National Association	$ 25,454,545.45	14.545454543%
National City Bank	$ 25,454,545.45	14.545454543%
Charter One N.A.	$ 15,909,090.91	9.090909091%
BMO Capital Markets Financing, Inc.	$ 15,909,090.91	9.090909091%
Allied Irish Banks PLC	$ 6,818,181.83	3.896103903%
Fifth Third Bank	$ 9,545,454.55	5.454545457%
The Huntington National Bank	$ 9,545,454.55	5.454545457%
TOTAL	**$ 175,000,000.00**	**100%**

TERM LOAN COMMITMENTS ON FOLLOWING PAGE

Term Loan Commitments

Lender	Amount of Term Loan Commitment	% of Aggregate Term Loan Commitment
JPMorgan Chase Bank, National Association	$ 27,272,727.27	27.272727270%
Citibank, N.A.	$ 14,545,454.55	14.545454540%
LaSalle Bank National Association	$ 14,545,454.55	14.545454540%
National City Bank	$ 14,545,454.55	14.545454540%
Charter One N.A.	$ 9,090,909.09	9.090909090%
BMO Capital Markets Financing, Inc.	$ 9,090,909.09	9.090909090%
Fifth Third Bank	$ 9,545,454.55	5.454545450%
The Huntington National Bank	$ 9,545,454.55	5.454545450%
TOTAL	**$ 100,000,000.00**	**100%**

PRICING SCHEDULE

Applicable Margin	Level I Status	Level II Status	Level III Status	Level IV Status	Level V Status	Level VI Status
Eurodollar Rate	0.75%	0.875%	1.00%	1.25%	1.50%	1.75%
Floating Rate	0%	0%	0%	0%	0.25%	0.50%

Applicable Fee Rate	Level I Status	Level II Status	Level III Status	Level IV Status	Level V Status	Level VI Status
Commitment Fee	0.15%	0.175%	0.20%	0.25%	0.30%	0.35%

For the purposes of this Schedule, the following terms have the following meanings, subject to the final paragraph of this Schedule:

“Financials” means the annual or quarterly financial statements of the Borrower delivered pursuant to Section 6.1.

“Level I Status” exists at any date if, as of the last day of the fiscal quarter of the Borrower referred to in the most recent Financials, the Leverage Ratio is less than 1.00 to 1.00.

“Level II Status” exists at any date if, as of the last day of the fiscal quarter of the Borrower referred to in the most recent Financials, the Leverage Ratio is equal to or greater than 1.00 to 1.00 but less than 1.50 to 1.00.

“Level III Status” exists at any date if, as of the last day of the fiscal quarter of the Borrower referred to in the most recent Financials, the Leverage Ratio is equal to or greater than 1.50 to 1.00 but less than 2.00 to 1.00.

“Level IV Status” exists at any date if, as of the last day of the fiscal quarter of the Borrower referred to in the most recent Financials, the Leverage Ratio is greater than or equal to 2.00 to 1.00 but less than 2.50 to 1.00.

“Level V Status” exists at any date if, as of the last day of the fiscal quarter of the Borrower referred to in the most recent Financials, the Leverage Ratio is greater than or equal to 2.50 to 1.00 but less than 3.00 to 1.00.

“Level VI Status” exists at any date, if, as of the last day of the fiscal quarter of the Borrower referred to in the most recent Financials, the Leverage Ratio is greater than or equal to 3.00 to 1.00.

“Status” means either Level I Status, Level II Status, Level III Status, Level IV Status, Level V Status or Level VI Status.

The Applicable Margin and Applicable Fee Rate shall be determined in accordance with foregoing table based on the Borrower’s Status as reflected in the then most recent Financials. Adjustments, if any, to the Applicable Margin or Applicable Fee Rate shall be effective five Business Days after the Administrative Agent has received the applicable Financials. If the Borrower fails to deliver the Financials to the Administrative Agent at the time required pursuant to Section 6.1, then the Applicable Margin and Applicable Fee Rate shall be the highest Applicable Margin and Applicable Fee Rate set forth in the foregoing table until five days after such Financials are so delivered.

Notwithstanding the foregoing, Level II Status shall be in effect until the Administrative Agent receives the Financials for the Borrower’s fiscal quarter ending on June 30, 2007 and adjustments to the Applicable Margin and Applicable Fee Rate shall thereafter be effected in accordance with the preceding paragraph.

CREDIT AGREEMENT SCHEDULES

Schedule 2.20
Existing Letters of Credit

	(1) IN U.S. DOLLARS	(2) RATE(C)	(3) BANK (L.C. NUMBER)	(4) IN FAVOR OF	(5) COMPANY/PURPOSE (PERIOD COVERED)
(1)	$ 24,269	1.000%	JP MORGAN CHASE (SLT430047)	LUMBERMENS MUTUAL CASUALTY CO.	CHEMED INSURANCE (3/10/04-10/1/07)
(2)	$ 4,093,000	1.000%	JP MORGAN CHASE (SLT430046)	NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA	CHEMED INSURANCE (3/10/04-10/1/07)
(3)	$ 25,000	1.000%	JP MORGAN CHASE (SLT335291)	CITY OF CHICAGO, IL DEPT OF TRANSPORTATION	RRSC STANDBY (10/28/02-12/31/2009)
(4)	$ 5,000	1.000%	JP MORGAN CHASE (SLT332674)	TOWN OF RIVERHEAD, NY RIVERHEAD SEWER DISTRICT	RRSC STANDBY (8/13/03-7/31/07)
(5)	$ 3,000,000(f)	1.000%	JP MORGAN CHASE (SLT334126)	FEDERAL INSURANCE COMPANY CHUBB COMMERCIAL INSURANCE	CHEMED INSURANCE (4/1/03-4/1/08)
(6)	$ 3,529,000(a)	1.000%	JP MORGAN CHASE. (SLT430044)	CONTINENTAL CASUALTY TRANSPORTATION INSURANCE CO.	CHEMED INSURANCE (3/10/04-10/1/07)
(7)	$ 13,000,000(b)	1.000%	JP MORGAN CHASE. (SLT430109)	ZURICH AMERICAN INSURANCE CO	CHEMED INSURANCE (3/31/04-3/31/08)
(8)	$ 1,647,190(e)	1.000%	JP MORGAN CHASE. (SLT430043)	RELIANCE INSURANCE COMPANY	VITAS INSURANCE (3/10/04-10/1/07)
(9)	$ 7,500,000(d)	1.000%	JP MORGAN CHASE (SLT430041)	SENTRY INSURANCE	VITAS INSURANCE (3/10/04-10/1/07)
(10)	$ 1,500,000	1.000%	JP MORGAN CHASE (SLT430042)	SENTRY INSURANCE	VITAS INSURANCE (3/10/04-10/1/07)
(11)	$ 10,000	1.000%	JP MORGAN CHASE (S-214667)	CITY OF LAKEWOOD, CO DIRECTOR OR PUBLIC WORKS	RRSC STANDBY (11/21/05-11/30/07)
(12)	**$ 34,333,459**	**TOTAL LETTERS OF CREDIT**			

(a) Reduced by $3,985,000 on 2/2/05. Reduced by $1,649,000 on 12/8/05.

(b) Increased by $4,000,000 on 4/19/05, Increased by $3.0 million on 4/7/06, Increased by $1.0 million on 4/17/07.

(c) As of 3/8/07 Level Pricing Changed to 1.00%

(d) Increased by $2,000,000 on 10/18/05. Increased $3.8 million on 7/11/06.

(e) Increased by $47,190 on 7/11/06.

(f) Reduced by $1,800,000 on 9/7/06.

Schedules 5.8 — Subsidiaries

Comfort Care Holdings Co.
Jet Resource, Inc.
Roto-Rooter Corporation
Roto-Rooter Services Company
Nurotoco of Massachusetts, Inc.
Roto-Rooter Group, Inc.
RR UK, Inc.
Roto-Rooter Development Company
Consolidated HVAC, Inc.
Vitas Healthcare Corporation
Vitas Hospice Services, L.L.C.
Vitas Healthcare Corporation of Illinois
Vitas Healthcare Corporation of California
Vitas Healthcare Corporation of Ohio
Vitas Healthcare Corporation of Florida
Vitas Healthcare Corporation of Central Florida
Vitas HME Solutions, Inc.
Vitas Holdings Corporation
Vitas Healthcare of Texas, L.P.
Hospice Care Incorporated
Vitas Healthcare Corporation of Georgia
Vitas Healthcare Corporation of Arizona
Vitas Healthcare Corporation Atlantic
Vitas Healthcare Corporation Midwest
Vitas Care Solutions, Inc.

Schedule 6.13
Existing Investments

	Grantor	Issuer	Type	Amount
(1)	Chemed Corporation	Roto-Rooter Development Company	Intercompany Receivable	$ 3,761,617
(2)	Chemed Corporation	Roto-Rooter Corporation	Intercompany Receivable	$ 5,716,700
(3)	Chemed Corporation	Consolidated HVAC, Inc.	Intercompany Receivable	$ 51,570,376
(4)	Chemed Corporation	Comfort Care Holdings Co.	Intercompany Receivable	$ 39,721,071
(5)	Chemed Corporation	Jet Resource, Inc.	Intercompany Receivable	$ 1,193,640
(6)	Chemed Corporation	Comfort Care Holdings Co.	Note Receivable	$312,397,376
(7)	Chemed Corporation	Patient Care, Inc.	Note Receivable	$ 14,701,379
(8)	Chemed Corporation	Patient Care, Inc.	Warrants	$ 1,445,000
(9)	Roto-Rooter Services Co.	Various independent contractors (total of 29)	Notes Receivable	$ 1,802,748
(10)	Roto-Rooter Group Inc.	Roto-Rooter of Canada Ltd.	Intercompany Receivable	$ 162,331
(11)	Roto-Rooter Services Co.	Roto-Rooter of Canada Ltd.	Intercompany Receivable	$ 2,633,769
(12)	Various Roto Rooter wholly owned subsidiaries	Complete Plumbing Service Inc.	Intercompany Receivable	$ 2,264,334

Schedule 6.14
Existing Indebtedness

Credit Party	Payable to	Amount
Roto-Rooter Service Company	Wray	$ 46,665
Roto-Rooter Service Company	Kissans	$ 4,579
Roto-Rooter Service Company	McCoy	$ 148,753
Roto-Rooter Service Company	Logar, Inc.	$198,794

Each of these promissory notes is part of the purchase price for an acquisition of certain assets.

VITAS ENTITIES

None.

Schedule 6.15
Existing Liens; Closing Date Surety Bond Liens

Debtor Name: Vitas Healthcare of Texas, L.P.

Jurisdiction/Filing Office	Thru Date	Filing Date; Number	Secured Party; Collateral
Texas			
UCC Liens — Secretary of State	12/03/03	04/16/02; 020026788003	RSCPF Fredricksburg, L.P.; Blanket Lien on all property located in leased premises at 5430 Fredricksburg Road, San Antonio, TX

Schedule 6.16
Transactions with Affiliates

None.

Schedule 6.18
Subsidiary Covenants

None.

EXHIBIT 12

CHEMED CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(in thousands, except ratios)

	2006	2007	2008	2009	2010
Pretax income from continuing operations	$ 90,284	$ 98,161	$115,404	$120,620	$ 133,831
Additions:					
Fixed charges	23,625	21,554	18,983	18,840	19,139
Amortization of capitalized interest	2	4	5	5	331
Deductions:					
Capitalized interest	(751)	(951)	(659)	(258)	—
Adjusted income	$113,160	$118,768	$ 133,733	$139,207	$153,301
Fixed Charges:					
Interest expense	$ 17,468	$ 14,921	$ 12,123	$ 11,599	$ 11,959
Capitalized interest	751	951	659	258	—
Interest component of rental expense	5,406	5,682	6,201	6,983	7,180
Fixed charges	$ 23,625	$ 21,554	$ 18,983	$ 18,840	$ 19,139
Ratio of earnings to fixed charges (a)	4.8x	5.5x	7.0x	7.4x	8.0x
Additional earnings needed to achieve 1:1 ratio coverage	n.a.	n.a.	n.a.	n.a.	n.a.

(a) For purposes of computing the ratio of earnings to fixed charges, pretax income from continuing operations has been added to fixed charges and adjusted for capitalized interest to derive adjusted income. Fixed charges consist of interest expense on debt (including the amortization of deferred financing costs), capitalized interest, prepayment penalties on the early extinguishment of debt and one-third (the proportion deemed representative of the interest component) of rental expense. Fixed charge amounts include interest from both continuing and discontinued operations.

Chemed Corporation and Subsidiary Companies

Financial Review

Contents

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorization of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management, including the President and Chief Executive Officer, Executive Vice President and Chief Financial Officer and Vice President and Controller, has conducted an evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2010, based on the framework established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, management concluded that internal control over financial reporting was effective as of December 31, 2010, based on criteria in *Internal Control—Integrated Framework* issued by COSO.

PricewaterhouseCoopers LLP, our independent registered public accounting firm, has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2010, as stated in their report which appears on page 2.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Chemed Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Chemed Corporation and its subsidiaries at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Cincinnati, Ohio
February 28, 2011

Chemed Corporation and Subsidiary Companies

CONSOLIDATED STATEMENT OF INCOME

(in thousands, except per share data) For the Years Ended December 31,	**2010**	2009	2008
Continuing Operations			
Service revenues and sales	**$ 1,280,545**	$1,190,236	$1,148,941
Cost of services provided and goods sold (excluding depreciation)	**906,016**	834,574	810,547
Selling, general and administrative expenses	**201,964**	197,426	175,333
Depreciation	**24,386**	21,535	21,581
Amortization	**4,657**	6,367	5,924
Other operating expenses (Note 7)	**—**	3,989	2,699
Total costs and expenses	**1,137,023**	1,063,891	1,016,084
Income from operations	**143,522**	126,345	132,857
Interest expense	**(11,959)**	(11,599)	(12,123)
Gain on extinguishment of debt (Note 3)	**—**	—	3,406
Other income/(expense)—net (Note 11)	**2,268**	5,874	(8,736)
Income before income taxes	**133,831**	120,620	115,404
Income taxes (Note 12)	**(52,000)**	(46,583)	(47,035)
Income from continuing operations	**81,831**	74,037	68,369
Discontinued Operations, Net of Income Taxes (Note 9)	**—**	(253)	(1,088)
Net Income	**$ 81,831**	$ 73,784	$ 67,281
Earnings Per Share (Note 16)			
Income from continuing operations	**$ 3.62**	$ 3.30	$ 2.97
Net Income	**$ 3.62**	$ 3.29	$ 2.92
Average number of shares outstanding	**22,587**	22,451	23,058
Diluted Earnings Per Share (Note 16)			
Income from continuing operations	**$ 3.55**	$ 3.26	$ 2.93
Net Income	**$ 3.55**	$ 3.24	$ 2.88
Average number of shares outstanding	**23,031**	22,742	23,374

The Notes to Consolidated Financial Statements are integral parts of this statement.

Chemed Corporation and Subsidiary Companies

CONSOLIDATED BALANCE SHEET

(in thousands, except shares and per share data)

December 31,	2010	2009
Assets		
Current assets		
Cash and cash equivalents (Note 10)	**$ 49,917**	$ 112,416
Accounts receivable less allowances of $13,332 (2009 — $12,595)	**112,999**	53,461
Inventories	**7,728**	7,543
Current deferred income taxes (Note 12)	**15,098**	13,701
Prepaid income taxes	**770**	749
Prepaid expenses	**10,285**	10,388
Total current assets	**196,797**	198,258
Investments of deferred compensation plans held in trust (Notes 15 and 17)	**28,304**	24,158
Properties and equipment, at cost, less accumulated depreciation (Note 13)	**79,292**	75,358
Identifiable intangible assets less accumulated amortization of $27,438 (2009 — $25,349) (Note 6)	**56,410**	57,920
Goodwill (Note 6)	**458,343**	450,042
Other assets	**11,015**	13,734
Total Assets	**$ 830,161**	$ 819,470
Liabilities		
Current liabilities		
Accounts payable	**$ 55,829**	$ 52,071
Income taxes (Note 12)	**1,161**	63
Accrued insurance	**36,492**	35,161
Accrued compensation	**39,719**	34,662
Other current liabilities	**16,141**	14,127
Total current liabilities	**149,342**	136,084
Deferred income taxes (Note 12)	**25,085**	25,924
Long-term debt (Note 3)	**159,208**	152,127
Deferred compensation liabilities (Note 15)	**27,851**	23,637
Other liabilities	**6,626**	4,536
Total Liabilities	**368,112**	342,308
Commitments and contingencies (Notes 14 and 19)		
Stockholders' Equity		
Capital stock — authorized 80,000,000 shares $1 par; issued 30,381,863 shares (2009 — 29,890,628 shares)	**30,382**	29,891
Paid-in capital	**365,007**	335,890
Retained earnings	**473,316**	403,366
Treasury stock — 9,103,185 shares (2009 — 7,275,070 shares), at cost	**(408,615)**	(293,941)
Deferred compensation payable in Company stock (Note 15)	**1,959**	1,956
Total Stockholders' Equity	**462,049**	477,162
Total Liabilities and Stockholders' Equity	**$ 830,161**	$ 819,470

The Notes to Consolidated Financial Statements are integral parts of this statement.

Chemed Corporation and Subsidiary Companies

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

For the Years Ended December 31,	**2010**	2009	2008
Cash Flows from Operating Activities			
Net income	**$ 81,831**	$ 73,784	$ 67,281
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization	**29,043**	27,902	27,505
Provision for uncollectible accounts receivable	**9,078**	10,833	9,820
Stock option expense	**7,762**	8,639	7,303
Amortization of discount on covertible notes	**7,081**	6,617	6,560
Noncash portion of long-term incentive compensation	**4,161**	4,385	—
Provision for deferred income taxes (Note 12)	**(2,409)**	4,979	(2,772)
Amortization of debt issuance costs	**654**	632	618
Discontinued operations (Note 9)	**—**	253	1,088
Noncash gain on early extinguishment of debt (Note 3)	**—**	—	(3,406)
Loss on impairment of equipment (Note 7)	**—**	—	2,699
Changes in operating assets and liabilities, excluding amounts acquired in business combinations:			
Decrease/(increase) in accounts receivable	**(68,656)**	33,754	(6,659)
Decrease/(increase) in inventories	**(151)**	29	(898)
Decrease/(increase) in prepaid expenses	**332**	(455)	305
Increase/(decrease) in accounts payable and other current liabilities	**13,810**	(8,109)	5,585
Increase/(decrease) in income taxes	**4,825**	623	(776)
Decrease/(increase) in other assets	**(4,398)**	(1,678)	5,480
Increase/(decrease) in other liabilities	**5,999**	272	(6,423)
Excess tax benefit on share-based compensation	**(3,357)**	(1,955)	(2,422)
Other sources	**407**	327	1,195
Net cash provided by operating activities	**86,012**	160,832	112,083
Cash Flows from Investing Activities			
Capital expenditures	**(25,639)**	(21,496)	(26,094)
Business combinations, net of cash acquired (Note 8)	**(9,469)**	(1,919)	(11,200)
Proceeds from sales of property and equipment	**290**	1,577	387
Net proceeds/(uses) of discontinued operations (Note 9)	**(156)**	(630)	8,824
Other uses	**(726)**	(374)	(544)
Net cash used by investing activities	**(35,700)**	(22,842)	(28,627)
Cash Flows from Financing Activities			
Purchases of treasury stock (Note 21)	**(109,330)**	(4,225)	(69,788)
Dividends paid	**(11,881)**	(8,157)	(5,543)
Proceeds from exercise of stock options (Note 4)	**5,327**	545	291
Excess tax benefit on share-based compensation	**3,357**	1,955	2,422
Increase/(decrease) in cash overdraft payable	**(581)**	2,891	(856)
Repayment of long-term debt (Note 3)	—	(14,669)	(18,713)
Net change in revolving line of credit	—	(8,200)	8,200
Other sources/(uses)	**297**	658	(829)
Net cash used by financing activities	**(112,811)**	(29,202)	(84,816)
Increase/(decrease) in cash and cash equivalents	**(62,499)**	108,788	(1,360)
Cash and cash equivalents at beginning of year	**112,416**	3,628	4,988
Cash and cash equivalents at end of year	**$ 49,917**	$112,416	$ 3,628

The Notes to Consolidated Financial Statements are integral parts of this statement.

Chemed Corporation and Subsidiary Companies

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except per share data)	Capital Stock	Paid-in Capital	Retained Earnings	Treasury Stock-at Cost	Deferred Compensation Payable in Company Stock	Total
Balance at December 31, 2007	$ 29,261	$ 301,098	$ 276,001	$ (213,041)	$ 2,481	$ 395,800
Net income	—	—	67,281	—	—	67,281
Dividends paid ($.24 per share)	—	—	(5,543)	—	—	(5,543)
Stock awards and exercise of stock options (Note 4)	254	15,752	—	(6,253)	—	9,753
Purchases of treasury stock (Note 21)	—	—	—	(67,125)	—	(67,125)
Repurchase of conversion feature of notes	—	(2,117)	—	—	—	(2,117)
Other	—	(1,217)	—	442	(443)	(1,218)
Balance at December 31, 2008	29,515	313,516	337,739	(285,977)	2,038	396,831
Net income	—	—	73,784	—	—	73,784
Dividends paid ($.36 per share)	—	—	(8,157)	—	—	(8,157)
Stock awards and exercise of stock options (Note 4)	376	21,741	—	(7,305)	—	14,812
Purchases of treasury stock (Note 21)	—	—	—	(742)	—	(742)
Other	—	633	—	83	(82)	634
Balance at December 31, 2009	**29,891**	**335,890**	**403,366**	**(293,941)**	**1,956**	**477,162**
Net income	**—**	**—**	**81,831**	**—**	**—**	**81,831**
Dividends paid ($.52 per share)	**—**	**—**	**(11,881)**	**—**	**—**	**(11,881)**
Stock awards and exercise of stock options (Note 4)	**491**	**28,541**	**—**	**(10,615)**	**—**	**18,417**
Purchases of treasury stock (Note 21)	**—**	**—**	**—**	**(104,139)**	**—**	**(104,139)**
Other	**—**	**576**	**—**	**80**	**3**	**659**
Balance at December 31, 2010	**$ 30,382**	**$ 365,007**	**$ 473,316**	**$ (408,615)**	**$ 1,959**	**$ 462,049**

The Notes to Consolidated Financial Statements are integral parts of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Chemed Corporation and Subsidiary Companies

1. Summary of Significant Accounting Policies

NATURE OF OPERATIONS

We operate through our two wholly owned subsidiaries: VITAS Healthcare Corporation (“VITAS”) and Roto-Rooter Group, Inc. (“Roto-Rooter”). 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 is 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.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Chemed Corporation and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated.

We have analyzed the provisions of the Financial Accounting Standards Board (“FASB”) authoritative guidance on the consolidation of variable interest entities relative to our contractual relationships with Roto-Rooter’s independent contractors and franchisees. The guidance requires the primary beneficiary of a Variable Interest Entity (“VIE”) to consolidate the accounts of the VIE. Based upon the guidance provided by the FASB, we have concluded that neither the independent contractors nor the franchisees are VIEs.

CASH EQUIVALENTS

Cash equivalents comprise short-term, highly liquid investments, including money market funds that have original maturities of three months or less.

ACCOUNTS AND LOANS RECEIVABLE AND CONCENTRATION OF RISK

Accounts and loans receivable are recorded at the principal balance outstanding less estimated allowances for uncollectible accounts. For the Roto-Rooter segment, allowances for trade accounts receivable are generally provided for accounts more than 90 days past due, although collection efforts continue beyond that time. Due to the small number of loans receivable outstanding, allowances for loan losses are determined on a case-by-case basis. For the VITAS segment, allowances for accounts receivable are provided on accounts based on expected collection rates by payer types. The expected collection rate is based on both historical averages and known current trends. Final write-off of overdue accounts or loans receivable is made when all reasonable collection efforts have been made and payment is not forthcoming. We closely monitor our receivables and periodically review procedures for granting credit to attempt to hold losses to a minimum.

As of December 31, 2010 and 2009, approximately 72% and 43%, respectively, of VITAS’ total accounts receivable balance were due from Medicare and 20% and 39%, respectively, of VITAS’ total accounts receivable balance were due from various state Medicaid programs. Combined accounts receivable from Medicare and Medicaid represent 88% of the net accounts receivable in the accompanying consolidated balance sheet as of December 31, 2010.

As of December 31, 2010, VITAS has approximately $2.8 million in unbilled revenue included in accounts receivable (December 31, 2009 — $9.9 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 any governmental or other payer reviews resulting in denials of patient service revenue. We believe our hospice programs comply with all payer requirements at the time of billing. However, we cannot predict whether future billing reviews or similar audits by payers will result in material denials or reductions in revenue.

INVENTORIES

Substantially all of the inventories are either general merchandise or finished goods. Inventories are stated at the lower of cost or market. For determining the value of inventories, cost methods that reasonably approximate the first-in, first-out (“FIFO”) method are used.

DEPRECIATION AND PROPERTIES AND EQUIPMENT

Depreciation of properties and equipment is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the remaining lease terms (excluding option terms) or their useful lives. Expenditures for maintenance, repairs, renewals and betterments that do not materially prolong the useful lives of the assets are expensed as incurred. The cost of property retired or sold and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is reflected currently in income.

Expenditures for major software purchases and software developed for internal use are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets. For software developed for internal use, external direct costs for materials and services and certain internal payroll and related fringe benefit costs are capitalized in accordance with the FASB's authoritative guidance on accounting for the costs of computer software developed or obtained for internal use.

The weighted average lives of our property and equipment at December 31, 2010, were:

Buildings	11.4	yrs.
Transportation equipment	14.6	
Machinery and equipment	5.6	
Computer software	4.7	
Furniture and fixtures	4.8	

GOODWILL AND INTANGIBLE ASSETS

Identifiable, definite-lived intangible assets arise from purchase business combinations and are amortized using either an accelerated method or the straight-line method over the estimated useful lives of the assets. The selection of an amortization method is based on which method best reflects the economic pattern of usage of the asset. The VITAS trade name is considered to have an indefinite life. Goodwill and the VITAS trade name are tested at least annually for impairment.

The date of our annual goodwill and indefinite-lived intangible asset impairment analysis is October 1. For all reporting units included in continuing operations, the impairment tests indicated that the fair value of our goodwill exceeds its carrying amount. Our goodwill and VITAS trade name are not impaired.

We consider that Roto-Rooter Co. (RRC), Roto-Rooter Services Co. (RRSC) and VITAS are appropriate reporting units. We consider RRC and RRSC as separate reporting units but one operating segment. This is appropriate as they each have their own set of general ledger accounts that can be analyzed at "one level below an operating segment" per the definition of a reporting unit in FASB guidance.

We used two methods to estimate the business enterprise value of each reporting unit — (a) a comparison to key enterprise value ratios of publicly traded market competitors and (b) an allocation of total Chemed market value at October 1, 2010 to each reporting unit. The final estimate of the business enterprise value of each reporting unit was determined using a simple average of the two methods.

For valuing the VITAS tradename, we performed a discounted cash flow analysis on the expected theoretical royalty cash stream from the VITAS tradename.

The weighted average lives of our identifiable, definite-lived intangible assets at December 31, 2010, were:

Covenants not to compete	6.4	yrs.
Reacquired franchise rights	6.7	
Referral networks	10.0	
Customer lists	13.3	

LONG-LIVED ASSETS

If we believe a triggering event may have occurred that indicates a possible impairment of our long-lived assets, we perform an estimate and valuation of the future benefits of our long-lived assets (other than goodwill and the VITAS trade name) based on key financial indicators. If the projected undiscounted cash flows of a major business unit indicate that property and equipment or identifiable, definite-lived intangible assets have been impaired, a write-down to fair value is made.

OTHER ASSETS

Debt issuance costs are included in other assets. Issuance costs related to revolving credit agreements are amortized using the straight line method, over the life of the agreement. All are other issuance costs are amortized using the effective interest method over the life of the debt.

We capitalize the direct costs of obtaining licenses to operate either hospice programs or plumbing operations subject to a minimum capitalization threshold. These costs are amortized over the life of the license using the straight-line method. Certain licenses are granted without an expiration and thus, we believe them to be indefinite-lived assets subject to impairment testing on at least an annual basis.

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. Sales of Roto-Rooter products, including drain cleaning machines and drain cleaning solution, comprise less than 3% of our total service revenues and sales for each of the three years in the period ended December 31, 2010.

CHARITY CARE

VITAS provides charity care, in certain circumstances, to patients without charge when management of the hospice program determines that the patient does not have the financial wherewithal to make payment. There is no revenue or associated accounts receivable in the accompanying consolidated financial statements related to charity care.

The cost of providing charity care during the years ended December 31, 2010, 2009 and 2008 was $7.2 million, $6.3 million and $7.1 million, respectively. The cost of charity care is calculated by taking the ratio of charity care days to total days of care and multiplying by total cost of care.

SALES TAX

The Roto-Rooter segment collects sales tax from customers when required by state and federal laws. We record the amount of sales tax collected net in the accompanying consolidated statement of income.

GUARANTEES

In the normal course of business, Roto-Rooter enters into various guarantees and indemnifications in our relationships with customers and others. These arrangements include guarantees of services for periods ranging from one day to one year and product satisfaction guarantees. Mainly due to our technicians being commission-based, guarantees and indemnifications do not materially impact our financial condition, results of operations or cash flows. Therefore, no liability for guarantees has been recorded as of December 31, 2010 or 2009.

OPERATING EXPENSES

Cost of services provided and goods sold (excluding depreciation) includes salaries, wages and benefits of service providers and field personnel, material costs, medical supplies and equipment, pharmaceuticals, insurance costs, service vehicle costs and other expenses directly related to providing service revenues or generating sales. Selling, general and administrative expenses include salaries, wages, stock option expense and benefits of selling, marketing and administrative employees, advertising expenses, communications and branch telephone expenses, office rent and operating costs, legal, banking and professional fees and other administrative costs. The cost associated with VITAS sales personnel is included in cost of services provided and goods sold (excluding depreciation).

ADVERTISING

We expense the production costs of advertising the first time the advertising takes place. The costs of telephone directory listings are expensed when the directories are placed in circulation. These directories are generally in circulation for approximately one year, at which point they are typically replaced by the publisher with a new directory. We generally pay for directory placement assuming it is in circulation for one year. If the directory is in circulation for less than or greater than one year, we receive a credit or additional billing, as necessary. We do not control the timing of when a new directory is placed in circulation. Advertising expense in continuing operations for the year ended December 31, 2010, was $27.7 million (2009 — $27.0 million; 2008 — $26.8 million).

COMPUTATION OF EARNINGS PER SHARE

Earnings per share are computed using the weighted average number of shares of capital stock outstanding. Diluted earnings per share reflect the dilutive impact of our outstanding stock options and nonvested stock awards. Stock options whose exercise price is greater than the average market price of our stock are excluded from the computation of diluted earnings per share.

STOCK-BASED COMPENSATION PLANS

Stock-based compensation cost is measured at the grant date, based on the fair value of the award and recognized as expense over the employee's requisite service period on a straight-line basis.

INSURANCE ACCRUALS

For our Roto-Rooter segment and Corporate Office, we self-insure for all casualty insurance claims (workers' compensation, auto liability and general liability). As a result, we closely monitor and frequently evaluate our historical claims experience to estimate the appropriate level of accrual for self-insured claims. Our third-party administrator ("TPA") processes and reviews claims on a monthly basis. Currently, our exposure on any single claim is capped at $500,000. In developing our estimates, we accumulate historical claims data for the previous 10 years to calculate loss development factors ("LDF") by insurance coverage type. LDFs are applied to known claims to estimate the ultimate potential liability for known and unknown claims for each open policy year. LDFs are updated annually. Because this methodology relies heavily on historical claims data, the key risk is whether the historical claims are an accurate predictor of future claims exposure. The risk also exists that certain claims have been incurred and not reported on a timely basis. To mitigate these risks, in conjunction with our TPA, we closely monitor claims to ensure timely accumulation of data and compare claims trends with the industry experience of our TPA.

For the VITAS segment, we self-insure for workers' compensation claims. Currently, VITAS' exposure on any single claim is capped at $750,000. For VITAS' self-insurance accruals for workers' compensation, the valuation methods used are similar to those used internally for our other business units.

Our casualty insurance liabilities are recorded gross before any estimated recovery for amounts exceeding our stop loss limits. Estimated recoveries from insurance carriers are recorded as accounts receivable.

TAXES ON INCOME

Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amount of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in our opinion, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in laws and rates on the date of enactment.

We are subject to income taxes in Canada, U.S. federal and most state jurisdictions. Significant judgment is required to determine our provision for income taxes. Our financial statements reflect expected future tax consequences of such uncertain positions assuming the taxing authorities' full knowledge of the position and all relevant facts.

ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Disclosures of aftertax expenses and adjustments are based on estimates of the effective income tax rates for the applicable segments.

CONTINGENCIES

We are subject to various lawsuits and claims in the normal course of our business. In addition, we periodically receive communications from governmental and regulatory agencies concerning compliance with Medicare and Medicaid billing requirements at our VITAS subsidiary. To the extent it is available and management deems it prudent, we carry commercial insurance against such claims. We establish reserves for specific, uninsured liabilities in connection with regulatory and legal action that we deem to be probable and estimable. We record legal fees associated with legal and regulatory actions as the costs are incurred.

2. Hospice Revenue Recognition

VITAS recognizes revenue at the estimated realizable amount due from third-party payers, which are primarily Medicare and Medicaid. Payers may deny payment for services in whole or in part on the basis that such services are not eligible for coverage and do not qualify for reimbursement. We estimate denials each period and make adequate provision in the financial statements. The estimate of denials is based on historical trends and known circumstances and does not vary materially from period to period on an aggregate basis. Medicare billings are subject to certain limitations, as described below.

The allowance for doubtful accounts for VITAS comprises the following (in thousands):

	Medicare	Medicaid	Other	Total
Beginning Balance — January 1, 2009	$ 5,255	$ 2,115	$ 1,069	$ 8,439
Bad debt provision	4,760	3,014	1,819	9,593
Contractual adjustments/(revenue reduction)	—	—	613	613
Write-offs	(3,440)	(2,446)	(1,821)	(7,707)
Ending Balance — December 31, 2009	**6,575**	**2,683**	**1,680**	**10,938**
Bad debt provision	**2,991**	**3,051**	**1,857**	**7,899**
Contractual adjustments/(revenue reduction)	**—**	**—**	**472**	**472**
Write-offs	**(2,263)**	**(2,653)**	**(2,592)**	**(7,508)**
Ending Balance — December 31, 2010	**$ 7,303**	**$ 3,081**	**$ 1,417**	**$ 11,801**

VITAS is subject to certain limitations on Medicare payments for services. Specifically, if the number of inpatient care days any hospice program provides to Medicare beneficiaries exceeds 20% of the total days of hospice care such program provided to all Medicare patients for an annual period beginning September 28, the days in excess of the 20% figure may be reimbursed only at the routine homecare rate. None of VITAS' hospice programs exceeded the payment limits on inpatient services in 2010, 2009 or 2008.

VITAS is also subject to a Medicare annual per-beneficiary cap ("Medicare cap"). Compliance with the Medicare cap is measured by comparing the total Medicare payments received under a Medicare provider number with respect to services provided to all Medicare hospice care beneficiaries in the program or programs covered by that Medicare provider number between November 1 of each year and October 31 of the following year with the product of the per-beneficiary cap amount and the number of Medicare beneficiaries electing hospice care for the first time from that hospice program or programs from September 28 through September 27 of the following year.

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 revenues are likely to exceed the annual per-beneficiary 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 actions, which include changes to the patient mix and increased 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 service revenue.

Our estimate of the Medicare cap liability is particularly sensitive to allocations made by our fiscal intermediary relative to patient transfers between hospices. We are allocated a percentage of the Medicare cap based on the days a patient spent in our care as compared to the total days a patient spent in all hospice care. The allocation for patient transfers cannot be determined until a patient dies. As the number of days a patient spends in hospice is based on a future event, this allocation process may take several years. Therefore, we use only first-time Medicare admissions in our estimate of the Medicare cap billing limitation. This method assumes that credit received for patients who transfer into our program will be offset by credit lost from patients who transfer out of our program. The amount we record is our best estimate of the liability as of the date of the financial statements but could change as more patient information becomes available.

During the year ended December 31, 2010, we reversed Medicare cap liability for amounts recorded in the fourth quarter of 2009 for two programs' projected 2010 measurement period liability. This reversal was partially offset by the Medicare cap liability for three programs' projected 2011 measurement period liability. For the year ended December 31, 2009, we recorded pretax charges in continuing operations for the estimated Medicare cap liability for two programs' projected liability through year end for the 2010 measurement period. The majority of the liability relates to one program which is VITAS' largest hospice. This amount was subsequently reversed during the 2010 fiscal year due to increased admission trends. Shown below is the Medicare cap liability activity for the years ended December 31, 2010 and 2009 (in thousands):

	2010	2009
Beginning Balance January 1,	$ 1,981	$ 338
Expense — 2011 measurement period	1,110	—
Expense/(reversal) — 2010 measurement period	(1,720)	1,783
Reversal — 2009 measurement period	—	(235)
Other retroactive billings	—	95
Ending Balance December 31,	$ 1,371	$ 1,981

The U.S. government revises hospice reimbursement rates on an annual basis using the Hospice Wage Index (HWI) and the Consumer Price Index plus a phase out of the Budget Neutrality Adjustment Factor (BNAF). The HWI is geographically adjusted to reflect local differences in wages. The BNAF is a portion of inflation calculated in prior years that is being eliminated or phased out over a seven year period. 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 twelve months ended December 31, 2009, is $1.95 million of revenue for the retroactive price increase related to services provided by VITAS in the fourth quarter of 2008.

In August 2009, the Centers for Medicare and Medicaid Services (CMS) revised the phase-out schedule of the BNAF. CMS reduced the increase in hospice reimbursement by 10% of the BNAF effective October 1, 2009. The remaining 90% of the BNAF will be phased out over the next six years by revising the October 1 reimbursement adjustment by 15% of the original BNAF inflation factor. Based upon this revised schedule, 100% of the BNAF will be eliminated on October 1, 2015.

3. Long-Term Debt and Lines of Credit

As of December 31, 2010, we have long-term debt of $159.2 million (December 31, 2009 - $152.1 million). This long-term debt is related in its entirety to our Convertible Notes that are due in full, in 2014.

2007 REFINANCING

Our 2007 credit facility includes a $175 million revolving credit facility and a $100 million expansion feature. The facility has a 5-year maturity with principal payments on the revolving credit facility due at maturity. Interest is payable quarterly at a floating rate equal to our choice of various indices plus a specified margin based on our leverage ratio. The interest rate at the inception of the agreement was LIBOR plus 0.875%.

In May 2007, we issued $200 million of Senior Convertible Notes due 2014 (the “Notes”) at a price of $1,000 per Note, less an underwriting fee of $27.50 per Note. We received approximately $194 million in net proceeds from the sale of the Notes after paying underwriting fees, legal and other expenses. We pay interest on the Notes on May 15 and November 15 of each year, beginning on November 15, 2007. The Notes mature on May 15, 2014. The Notes are guaranteed on an unsecured senior basis by each of our subsidiaries that are a borrower or a guarantor under any senior credit facility, as defined in the Indenture. The Notes were convertible, under certain circumstances, into our Capital Stock at an initial conversion rate of 12.3874 shares per $1,000 principal amount of Notes. This conversion rate is equivalent to an initial conversion price of approximately $80.73 per share. Prior to March 1, 2014, holders may convert their Notes under certain circumstances. On and after March 1, 2014, the Notes will be convertible at any time prior to the close of business three days prior to the stated maturity date of the Notes. Upon conversion of a Note, if the conversion value is $1,000 or less, holders will receive cash equal to the lesser of $1,000 or the conversion value of the number of shares of our Capital Stock. If the conversion value exceeds $1,000, in addition to this, holders will receive shares of our Capital Stock for the excess amount. The Indenture contains customary terms and covenants that upon certain events of default, including without limitation, failure to pay when due any principal amount, a fundamental change or certain cross defaults in other agreements or instruments, occurring and continuing; either the trustee or the holders of 25% in aggregate principal amount of the Notes may declare the principal of the Notes and any accrued and unpaid interest through the date of such declaration immediately due and payable. In the case of certain events of bankruptcy or insolvency relating to any significant subsidiary or to us, the principal amount of the Notes and accrued interest automatically becomes due and payable.

The conversion rate on the Notes is adjusted upon certain corporate events including a quarterly dividend payment in excess of $0.06 per share. In February 2010 and May 2010, we declared quarterly dividends of $0.12 per share. In August 2010 and November 2010, we declared quarterly dividends of $0.14 per share. This has the effect of changing the conversion rate to 12.484 ($80.10 per share) at December 31, 2010.

Pursuant to the FASB's guidance on accounting for derivative instruments indexed to, and potentially settled in a company's own stock as well as the guidance on the meaning of "indexed to a company's own stock," the Notes are accounted for as convertible debt in the accompanying consolidated balance sheet and the embedded options within the Notes have not been accounted for as separate derivatives.

In conjunction with the Notes, we entered into a purchased call transaction and a warrant transaction (written call) with JPMorgan Chase, National Association and Citibank, N.A. (the "Counterparties"). The purchased call options cover approximately 2,477,000 shares of our Capital Stock, which under most circumstances represents the maximum number of shares of Capital Stock that underlie the Notes. Concurrently with entering into the purchased call options, we entered into warrant transactions with each of the Counterparties. Pursuant to the warrant transactions, we sold to the Counterparties warrants to purchase in the aggregate approximately 2,477,000 shares of our Capital Stock. In most cases, the sold warrants may not be exercised prior to the maturity of the Notes.

The purchased call options and sold warrants are separate contracts with the Counterparties, are not part of the terms of the Notes and do not affect the rights of holders under the Notes. A holder of the Notes will not have any rights with respect to the purchased call options or the sold warrants. The purchased call options are expected to reduce the potential dilution upon conversion of the Notes if the market value per share of the Capital Stock at the time of exercise is greater than the conversion price of the Notes at time of exercise. The sold warrants have an exercise price of $105.44 and are expected to result in some dilution should the price of our Capital Stock exceed this exercise price.

Our net cost for these transactions was approximately $27.3 million. Pursuant to FASB's authoritative guidance, the purchased call option and the sold warrants are accounted for as equity transactions. Therefore, our net cost was recorded as a decrease in stockholders' equity in the accompanying consolidated balance sheet.

In May 2008, the FASB issued authoritative guidance for accounting for convertible debt instruments that may be settled in cash upon conversion including partial cash settlement. This guidance requires all such convertible debentures to be separately accounted for as 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 provisions of the guidance on January 1, 2009 and applied the guidance retrospectively. Upon adoption, the Notes had a discount of approximately $55.1 million. For 2008 interest expense increased and retained earnings decreased $6.1 million, ($4.0 million, net of income taxes). The increase in interest expense results in a reduction in EPS and diluted EPS of $0.20.

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

	December 31,	
	2010	2009
Principal amount of convertible debentures	$186,956	$186,956
Unamortized debt discount	(27,748)	(34,829)
Carrying amount of convertible debentures	$ 159,208	$ 152,127
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):

	December 31,		
	2010	2009	2008
Cash interest expense	$ 4,224	$ 4,350	$ 4,945
Non-cash amortization of debt discount	7,081	6,617	6,560
Amortization of debt costs	654	632	618
Total interest expense	$11,959	$11,599	$ 12,123

The unamortized debt discount is 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 6.875%.

The average interest rate for our long-term debt was 1.9% for the years ended December 31, 2010 and 2009.

In the fourth quarter of 2008, we purchased approximately $13.0 million face value of our Convertible Notes due 2014 for approximately $8.5 million. This resulted in a pre-tax net gain of $3.4 million comprised of $3.7 million related to the purchase of the Convertible Notes partially offset by $300,000 in the write-off of unamortized debt issuance costs. The net gain was recorded as a gain on extinguishment of debt in the accompanying statement of income in 2008.

Capitalized interest was not material for any of the periods shown. Summarized below are the total amounts of interest paid during the years ended December 31 (in thousands):

2010	**$ 4,113**
2009	4,667
2008	5,628

DEBT COVENANTS

Collectively, the 2007 Facility and the Notes require us to meet certain restrictive non-financial and financial covenants. We are in compliance with all non-financial debt covenants as of December 31, 2010. The restrictive financial covenants are defined in the credit agreement and include maximum leverage ratios, minimum fixed charge coverage and consolidated net worth ratios, limits on operating leases and minimum asset value limits. We are in compliance with the financial debt covenants as of December 31, 2010, as follows:

Description	Requirement	Chemed
Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA)	< 3.50 to 1.00	1.15 to 1.00
Fixed Charge Coverage Ratio (Consolidated Free Cash Flow/Consolidated Fixed Charges)	> 1.50 to 1.00	2.26 to 1.00
Minimum Net Worth	> $350.3 million	$393.4 million
Annual Operating Lease Commitment	< $30.0 million	$17.8 million
Credit Party Asset Value	> $700.0 million	$809.3 million

We have issued $28.0 million in standby letters of credit as of December 31, 2010, mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of December 31, 2010, we have approximately $147.0 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the expansion feature. We have made no borrowings from our line of credit during the year ended December 31, 2010.

4. Stock-Based Compensation Plans

We provide employees the opportunity to acquire our stock through a number of plans, as follows:

- We have six stock incentive plans under which 8,450,000 shares can be issued to key employees through a grant of stock awards and/or options to purchase shares. The Compensation/Incentive Committee ("CIC") of the Board of Directors administers these plans. All options granted under these plans provide for a purchase price equal to the market value of the stock at the date of grant. The latest plan, covering a total of 1,750,000 shares, was adopted in May 2010. The plans are not qualified, restricted or incentive plans under the U.S. Internal Revenue Code. The terms of each plan differ slightly; however, stock options issued under the plans generally have a maximum term of 10 years. Under one plan, adopted in 1999, up to 500,000 shares may be issued to employees who are not our officers or directors.
- In May 2002, our shareholders approved the adoption of the Executive Long-Term Incentive Plan ("LTIP") covering our officers and key employees. The CIC periodically approves a pool of shares to be awarded based on stock price hurdles, EBITDA targets and a discretionary component for the LTIP.

  In May 2009, the CIC approved a new stock-price target portion of the Company's LTIP. 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 during the three years ending February 28, 2012.

In December 2010, we met the $58.00 stock price target of our Long-Term Incentive Plan. On December 9, 2010, the Compensation/Incentive Committee of the Board of Directors (“CIC”) approved a stock grant of 41,100 shares (including 7,350 shares from the discretionary pool) and the related allocation to participants. The pretax cost of the stock grant was $2.9 million and is included in selling, general and administrative expense in the accompanying consolidated statement of income.

In April 2010, we met the $54.00 stock price target of our Long-Term Incentive Plan. On April 16, 2010, the Compensation/Incentive Committee of the Board of Directors (“CIC”) approved a stock grant of 27,900 shares (including 5,400 shares from the discretionary pool) and the related allocation to participants. The pretax cost of the stock grant was $1.8 million and is included in selling, general and administrative expense in the accompanying consolidated statement of income.

In October 2009, we met the cumulative EBITDA target established in 2007 and on November 10, 2009 the CIC approved a stock grant of 96,200 shares and the related allocation to participants. The pretax cost of the stock grant was $5.0 million and is included in selling, general and administrative expenses in the accompanying consolidated statement of income.

In November 2009, the CIC approved a pool of shares to be awarded based on new EBITDA targets. The participants of the LTIP may be awarded 80,000 shares of capital stock if we attain Adjusted EBITDA of either $640 million for the three-year period beginning January 1, 2010, or $825 million for the four-year period beginning January 1, 2010. The CIC also established a discretionary pool of 37,000 shares of capital stock.

- We maintain an Employee Stock Purchase Plan (“ESPP”). The ESPP allows eligible participants to purchase our shares through payroll deductions at current market value. We pay administrative and broker fees associated with the ESPP. Shares purchased for the ESPP are purchased on the open market and credited directly to participants’ accounts. In accordance with the FASB’s guidance, the ESPP is non-compensatory.

For the years ended December 31, 2010, 2009 and 2008, we recorded $2.6 million, $2.3 million and $1.9 million, respectively, in amortization expense in the accompanying statement of income for stock-based compensation related to the amortization of restricted stock awards granted. For the years ended December 31, 2010, 2009 and 2008, we recorded $7.8 million, $8.6 million and $7.3 million, respectively, in selling, general and administrative expenses for stock-based compensation related to stock options granted. There were no capitalized stock-based compensation costs for any period presented.

As of December 31, 2010, approximately $3.9 million of total unrecognized compensation costs related to non-vested stock awards are expected to be recognized over a weighted average period of 2.1 years. As of December 31, 2010, approximately $8.4 million of total unrecognized compensation costs related to non-vested stock options are expected to be recognized over a weighted average period of 1.7 years.

The following table summarizes stock option and award activity:

	Stock Options		Stock Awards	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Grant-Date Price
Stock-based compensation shares:				
Outstanding at January 1, 2010	2,452,227	$ 43.36	169,975	$ 47.87
Granted	515,100	52.76	125,472	57.13
Exercised/Vested	(365,763)	29.40	(143,827)	55.82
Canceled/Forfeited	(14,918)	45.94	—	—
Outstanding at December 31, 2010	2,586,646	$ 47.19	151,620	$ 48.00
Vested at December 31, 2010	1,572,913	$ 47.47		

The weighted average contractual life of outstanding and exercisable options was 5.7 years at December 31, 2010.

Options outstanding at December 31, 2010, were in the following exercise price ranges:

Exercise Price Range	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
$0 to $27.18	203,604	$ 20.18	$ 8,822,000
$27.19 to $40.78	577,416	$35.21	$ 16,341,000
$40.79 to $70.00	1,347,326	$ 49.34	$19,092,000

The total intrinsic value of stock options exercised during the years ended December 31, 2010, 2009 and 2008 was $10.1 million, $5.1 million and $5.2 million, respectively. The total intrinsic value of stock options that were vested during the years ended December 31, 2010, 2009 and 2008 was $27.7 million, $15.5 million and $11.3 million, respectively. The total intrinsic value of stock awards that were vested during the years ended December 31, 2010, 2009, and 2008 was $8.4 million, $5.6 million and $3.4 million, respectively. The total fair value of stock options that vested during 2010, 2009 and 2008 was $7.9 million, $7.8 million and $6.0 million, respectively. The total intrinsic value of stock awards vested during the years ended December 31, 2010, 2009 and 2008 was $8.4 million, $5.6 million and $3.4 million, respectively. The total fair value of stock awards vested during the years ended December 31, 2010, 2009 and 2008 was $8.0 million, $5.4 million and $1.8 million, respectively. The total cash received from employees as a result of employee stock option exercises for the years ended December 31, 2010, 2009 and 2008 was $5.3 million, $545,000 and $291,000, respectively. In connection with these exercises, the excess tax benefits realized for the years ended December 31, 2010, 2009 and 2008, were $3.4 million, $2.0 million and $2.4 million, respectively. We settle employee stock options with newly issued shares.

We estimate the fair value of stock options using the Black-Scholes valuation model, consistent with the provisions of the FASB's and the Securities and Exchange Commission's ("SEC") guidance. We determine expected term, volatility, dividend yield and forfeiture rate based on our historical experience. We believe that historical experience is the best indicator of these factors. For purposes of determining the key assumptions and the related fair value of the options granted, we analyzed the participants of the LTIP separately from the other stock option recipients. The assumptions we used to value the 2010, 2009 and 2008 grants are as follows:

	2010		2009		2008	
	LTIP Participants	All Others	LTIP Participants	All Others	LTIP Participants	All Others
Stock price on date of issuance	$ 52.76	$ 52.76	$ 44.02	$ 44.02	$ 33.75	$ 33.75
Grant date fair value per share	$ 15.57	$ 14.55	$ 14.95	$ 12.49	$ 11.18	$ 10.18
Number of options granted	331,500	183,600	320,000	188,600	325,000	183,600
Expected term (years)	5.4	4.5	5.7	4.1	5.7	4.3
Risk free rate of return	2.62%	2.09%	1.91%	1.44%	3.08%	2.92%
Volatility	33.0%	34.5%	35.0%	35.0%	31.8%	34.0%
Dividend yield	1.5%	1.5%	0.6%	0.6%	0.7%	0.7%
Forfeiture rate	—	4.4%	—	5.5%	—	5.20%

5. Segments and Nature of the Business

Our segments include the VITAS segment and the Roto-Rooter segment. Relative contributions of each segment to service revenues and sales were 72% and 28%, respectively, in both 2010 and 2009. The vast majority of our service revenues and sales from continuing operations are generated from business within the United States.

The reportable segments have been defined along service lines, which is consistent with the way the businesses are managed. In determining reportable segments, the Roto-Rooter Services and Roto-Rooter Franchising and Products operating units of the Roto-Rooter segment have been aggregated on the basis of possessing similar operating and economic characteristics. The characteristics of these operating segments and the basis for aggregation are reviewed annually. Accordingly, the reportable segments are defined as follows:

- The VITAS segment provides hospice services for patients with severe, life-limiting illnesses. This type of care is aimed at making the terminally ill patient's end of life as comfortable and pain-free as possible. Hospice care is typically available to patients who have been initially certified or re-certified as terminally ill (i.e., a prognosis of six months or less) by their attending physician, if any, and the hospice physician. VITAS offers all levels of hospice care in a given market, including routine home care, inpatient care and continuous care. Over 90% of VITAS' revenues are derived through the Medicare and Medicaid reimbursement programs.

- The Roto-Rooter segment provides repair and maintenance services to residential and commercial accounts using the Roto-Rooter registered service marks. Such services include plumbing and sewer, drain and pipe cleaning. They are delivered through company-owned and operated territories, independent contractor-operated territories and franchised locations. This segment also manufactures and sells products and equipment used to provide such services.

- We report corporate administrative expenses and unallocated investing and financing income and expense not directly related to either segment as "Corporate". Corporate administrative expense includes the stewardship, accounting and reporting, legal, tax and other costs of operating a publicly held corporation. Corporate investing and financing income and expenses include the costs and income associated with corporate debt and investment arrangements. Historically, we have recorded stock award amortization as a corporate expense. In the first quarter of 2010, our CODM determined that this was an on-going, operational expense and should be reported within the appropriate business segment. Accordingly, stock award amortization has been reclassified to the corresponding business segment for all periods presented.

Segment data for our continuing operations are set forth below (in thousands):

	For the Years Ended December 31,		
	2010	2009	2008
Revenues by Type of Service			
VITAS			
Routine homecare	**$ 666,562**	$ 615,408	$ 585,891
Continuous care	**153,050**	141,272	124,894
General inpatient	**105,588**	97,356	97,895
Estimated BNAF	**—**	1,950	—
Medicare cap	**610**	(1,643)	(235)
Total segment	**925,810**	854,343	808,445
Roto-Rooter			
Sewer and drain cleaning	**135,704**	136,503	146,150
Plumbing repair and maintenance	**168,625**	151,072	145,831
Independent contractors	**22,943**	21,620	21,968
HVAC repair and maintenance	**4,183**	4,031	4,059
Other products and services	**23,280**	22,667	22,488
Total segment	**354,735**	335,893	340,496
Total service revenues and sales	**$1,280,545**	$1,190,236	$1,148,941

	For the Years Ended December 31,		
	2010	2009	2008
Aftertax Segment Earnings/(Loss)			
VITAS	**$ 79,796**	$ 71,696	$ 64,304
Roto-Rooter	**31,678**	33,040	33,427
Total	**111,474**	104,736	97,731
Corporate	**(29,643)**	(30,699)	(29,362)
Discontinued operations	**—**	(253)	(1,088)
Net income	**$ 81,831**	$ 73,784	$ 67,281
Interest Income			
VITAS	**$ 4,852**	$ 4,581	$ 5,336
Roto-Rooter	**2,661**	2,587	3,824
Total	**7,513**	7,168	9,160
Corporate	**175**	83	489
Intercompany eliminations	**(7,244)**	(6,828)	(8,907)
Total interest income	**$ 444**	$ 423	$ 742
Interest Expense			
VITAS	**$ 131**	$ 374	$ 155
Roto-Rooter	**233**	186	246
Total	**364**	560	401
Corporate	**11,595**	11,039	11,722
Total interest expense	**$ 11,959**	$ 11,599	$ 12,123
Income Tax Provision			
VITAS	**$ 48,601**	$ 43,637	$ 38,458
Roto-Rooter	**19,547**	20,372	20,644
Total	**68,148**	64,009	59,102
Corporate	**(16,148)**	(17,426)	(12,067)
Total income tax provision	**$ 52,000**	$ 46,583	$ 47,035
Identifiable Assets			
VITAS	**$531,247**	$ 476,621	$ 523,178
Roto-Rooter	**205,601**	191,254	188,003
Total	**736,848**	667,875	711,181
Corporate	**93,313**	151,595	48,441
Total identifiable assets	**$ 830,161**	$ 819,470	$759,622
Additions to Long-Lived Assets			
VITAS	**$ 16,787**	$ 14,913	$ 8,797
Roto-Rooter	**17,975**	8,067	18,906
Total	**34,762**	22,980	27,703
Corporate	**18**	448	9,492
Total additions to long-lived assets	**$ 34,780**	$ 23,428	$ 37,195
Depreciation and Amortization			
VITAS	**$ 18,900**	$ 17,973	$ 17,651
Roto-Rooter	**8,289**	8,509	8,607
Total	**27,189**	26,482	26,258
Corporate	**1,854**	1,420	1,247
Total depreciation and amortization	**$ 29,043**	$ 27,902	$ 27,505

6. Goodwill and Intangible Assets

Amortization of definite-lived intangible assets from continuing operations for the years ended December 31, 2010, 2009, 2008 was $2.1 million, $4.0 million and $4.0 million, respectively. The following is a schedule by year of projected amortization expense for definite-lived intangible assets (in thousands):

2011	$ 1,402
2012	1,399
2013	1,399
2014	427
2015	217
Thereafter	266

The balance in identifiable intangible assets comprises the following (in thousands):

	Gross Asset	Accumulated Amortization	Net Book Value
December 31, 2010			
Referral networks	**$ 21,140**	**$ (17,427)**	**$ 3,713**
Covenants not to compete	**9,211**	**(8,814)**	**397**
Customer lists	**1,223**	**(1,089)**	**134**
Reacquired franchise rights	**974**	**(108)**	**866**
Subtotal — definite-lived intangibles	**32,548**	**(27,438)**	**5,110**
VITAS trade name	**51,300**	**—**	**51,300**
Total	**$ 83,848**	**$ (27,438)**	**$ 56,410**
December 31, 2009			
Referral networks	$ 21,200	$ (16,240)	$ 4,960
Covenants not to compete	9,092	(8,006)	1,086
Customer lists	1,227	(1,060)	167
Reacquired franchise rights	450	(43)	407
Subtotal — definite-lived intangibles	31,969	(25,349)	6,620
VITAS trade name	51,300	—	51,300
Total	$ 83,269	$ (25,349)	$57,920

7. Other Operating Expenses

There were no other operating expenses from continuing operations for the period ended December 31, 2010.

For the twelve-month period ended December 31, 2009, we recorded pretax expenses of $4.0 million related to the costs of a contested proxy solicitation.

In December 2008, the Executive Committee of the Board of Directors authorized us to place a 29 year-old, eight passenger Hawker jet for sale. We determined that this asset met the definition of held for sale under the FASB's guidance on, accounting for the impairment or disposal of long-lived assets. As a result, we discontinued depreciation on the jet and wrote-down the asset to its fair value less selling costs resulting in a pre-tax charge to other operating expenses — net of approximately $2.7 million. In March 2009, we sold the jet and recognized a $112,000 gain on disposal.

8. Business Combinations

During 2010, we completed four business combinations within the Roto-Rooter segment for $9.5 million in cash to increase our market penetration in Kansas City, Missouri, St. Louis, Missouri, Jefferson City, Missouri and Spokane Washington. We made no acquisitions within the VITAS segment during 2010. The purchase price of these acquisitions was allocated as follows (in thousands):

Working capital	$ 268
Identifiable intangible assets	589
Goodwill	8,225
Other assets and liabilities — net	387
	$ 9,469

During 2009, we completed two business combinations within the Roto-Rooter segment for $1.9 million in cash to increase our market penetration in Detroit, Michigan and Grand Rapids, Michigan. We made no acquisitions within the VITAS segment during 2009.

During 2008, we completed four business combinations within the Roto-Rooter segment for $11.2 million in cash to increase our market penetration in Colorado Springs, Colorado; Dayton, Ohio; Eugene, Oregon; and Topeka, Kansas. We made no acquisitions within the VITAS segment during 2008.

The unaudited pro forma results of operations, assuming purchase business combinations completed in 2010 and 2009 were completed on January 1, 2009, do not materially impact the accompanying consolidated financial statements. The results of operations of each of the above business combinations are included in our results of operations from the date of the respective acquisition.

9. Discontinued Operations

Discontinued operations comprise (in thousands, except per share amounts):

	For the Years Ended December 31,		
	2010	2009	2008
Adjustment to accruals of operations discontinued in prior years:			
Casualty insurance costs	**$** —	$ (400)	$ (1,719)
Loss before income taxes	—	(400)	(1,719)
All other income taxes	—	147	631
Total adjustments	—	(253)	(1,088)
Total discontinued operations	**$** —	$ (253)	$ (1,088)
Earnings/(loss) per share	**$** —	$ 0.01	$ 0.05
Diluted earnings/(loss) per share	**$** —	$ 0.02	$ 0.05

At December 31, 2010 and 2009, the accrual for our estimated liability for potential environmental cleanup and related costs arising from the sale of DuBois amounted to $1.7 million. Of the 2010 balance, $826,000 is included in other current liabilities and $901,000 is included in other liabilities (long-term). We are contingently liable for additional DuBois-related environmental cleanup and related costs up to a maximum of $14.9 million. On the basis of a continuing evaluation of the potential liability, we believe it is not probable this additional liability will be paid. Accordingly, no provision for this contingent liability has been recorded. The potential liability is not insured, and the recorded liability does not assume the recovery of insurance proceeds. Also, the environmental liability has not been discounted because it is not possible to reliably project the timing of payments. We believe that any adjustments to our recorded liability will not materially adversely affect our financial position, results of operations or cash flows.

At December 31, 2010, other current liabilities include accruals of $1.0 million and other liabilities (long-term) include accruals of $1.1 million for costs related to discontinued operations. The estimated timing of payments of these liabilities follows (in thousands):

2011	$ 1,043
2012	300
Thereafter	831
	$ 2,174

10. Cash Overdrafts and Cash Equivalents

Included in accounts payable are cash overdrafts of $11.1 million and $11.7 million as of December 31, 2010 and 2009, respectively.

From time to time throughout the year, we invest excess cash in money market funds or repurchase agreements directly with major commercial banks. We do not physically hold the collateral for repurchase agreements, but the term is less than 10 days. We closely monitor the creditworthiness of the institutions with which we invest our overnight funds and the quality of the collateral underlying those investments. We had $45.5 million in cash equivalents as of December 31, 2010. There was $109.4 million in cash equivalents as of December 31, 2009. The weighted average rate of return for our cash equivalents was 0.1% in 2010 and 0.3% in 2009.

11. Other Income/ (Expense) —Net

Other income/ (expense)—net from continuing operations comprises the following (in thousands):

	For the Years Ended December 31,		
	2010	2009	2008
Market value gains/(losses) on assets held in deferred compensation trust	$ 2,210	$ 5,802	$ (9,140)
Loss on disposal of property and equipment	(425)	(369)	(415)
Interest income	444	423	742
Other — net	39	18	77
Total other income/(expense)	$ 2,268	$ 5,874	$ (8,736)

The offset for market value gains or losses on assets held in deferred compensation trust is recorded in selling, general and administrative expenses.

12. Income Taxes

The provision for income taxes comprises the following (in thousands):

	For the Years Ended December 31,		
	2010	**2009**	2008
Continuing Operations:			
Current			
U.S. federal	**$ 46,789**	$ 36,182	$ 42,914
U.S. state and local	**6,981**	4,960	6,226
Foreign	**639**	462	667
Deferred			
U.S. federal, state and local	**(2,418)**	4,980	(2,710)
Foreign	**9**	(1)	(62)
Total	**$ 52,000**	$ 46,583	$ 47,035
Discontinued Operations:			
Current U.S. federal	**$ —**	$ (65)	$ (735)
Current U.S. state and local	—	(5)	(55)
Deferred U.S. federal, state and local	—	(77)	159
Total	**$ —**	$ (147)	$ (631)

A summary of the temporary differences that give rise to deferred tax assets/ (liabilities) follows (in thousands):

	December 31,	
	2010	2009
Accrued liabilities	**$ 26,334**	$ 23,609
Stock compensation expense	**10,257**	7,991
Allowance for uncollectible accounts receivable	**2,695**	1,862
State net operating loss carryforwards	**1,379**	1,439
Other	**2,763**	2,420
Deferred income tax assets	**43,428**	37,321
Amortization of intangible assets	**(40,135)**	(37,975)
Accelerated tax depreciation	**(10,499)**	(9,495)
Currents assets	**(1,148)**	(1,179)
Other	**(1,397)**	(623)
Deferred income tax liabilities	**(53,179)**	(49,272)
Net deferred income tax liabilities	**$ (9,751)**	$(11,951)

Included in other assets at December 31, 2010, are deferred income tax assets of $236,000 (2009 — $272,000). At December 31, 2010 and 2009, state net operating loss carryforwards were $26.0 million and $26.6 million, respectively. These net operating losses will expire, in varying amounts, between 2011 and 2030. Based on our history of operating earnings, we have determined that our operating income will, more likely than not, be sufficient to ensure realization of our deferred income tax assets.

After FASB's adoption of FASB's guidance on accounting for uncertain income taxes in 2007, we had approximately $1.3 million in unrecognized tax benefits. The majority of this amount would affect our effective tax rate, if recognized in a future period. The years ended December 31, 2007, and forward remain open for review for Federal income tax purposes. The earliest open year relating to any of our material state jurisdictions is the fiscal year ended December 31, 2005. During the next twelve months, we do not anticipate a material net change in unrecognized tax benefits.

As permitted by this guidance, we classify interest related to our accrual for uncertain tax positions in separate interest accounts. As of December 31, 2010 and 2009, we have approximately $114,000 and $149,000, respectively, accrued in interest payable related to uncertain tax positions. These accruals are included in other current liabilities in the accompanying consolidated balance sheet. Net interest expense related to uncertain tax positions included in interest expense in the accompanying consolidated statement of income is not material.

A roll forward of the significant changes to our unrecognized tax benefits is as follows (in thousands):

	2010	2009	2008
Balance at January 1,	**$ 1,010**	$ 1,202	$ 1,169
Unrecognized tax benefits due to positions taken in current year	**119**	136	413
Gross change due to positions taken in prior years	**—**	—	53
Decrease due to settlement with taxing authorities	**—**	(214)	(174)
Decrease due to expiration of statute of limitations	**(425)**	(93)	(259)
Other	**—**	(21)	—
Balance at December 31,	**$ 704**	$ 1,010	$ 1,202

The difference between the actual income tax provision for continuing operations and the income tax provision calculated at the statutory U.S. federal tax rate is explained as follows (in thousands):

	For the Years Ended December 31,		
	2010	2009	2008
Income tax provision calculated using the statutory rate of 35%	**$ 46,841**	$ 42,217	$ 40,391
State and local income taxes, less federal income tax effect	**4,509**	3,837	3,928
Nondeductible expenses	**908**	829	891
Impact of deferred compensation plans	**(27)**	(190)	3,084
R&D tax credit	**—**	—	(656)
Other —net	**(231)**	(110)	(603)
Income tax provision	**$ 52,000**	$ 46,583	$ 47,035
Effective tax rate	**38.9%**	38.6%	40.8%

Summarized below are the total amounts of income taxes paid during the years ended December 31 (in thousands):

2010	$ 49,532
2009	40,872
2008	50,535

Provision has not been made for additional taxes on $35.1 million of undistributed earnings of our domestic subsidiaries. Should we elect to sell our interest in all of these businesses rather than to effect a tax-free liquidation, additional taxes amounting to approximately $12.9 million would be incurred based on current income tax rates.

13. Properties and Equipment

A summary of properties and equipment follows (in thousands):

	December 31,	
	2010	2009
Land	**$ 1,360**	$ 1,360
Buildings	**32,788**	29,699
Transportation equipment	**18,837**	17,318
Machinery and equipment	**58,706**	53,017
Computer software	**47,203**	26,147
Furniture and fixtures	**51,277**	45,133
Projects under development	**1,817**	17,865
Total properties and equipment	**211,988**	190,539
Less accumulated depreciation	**(132,696)**	(115,181)
Net properties and equipment	**$ 79,292**	$ 75,358

The net book value of computer software at December 31, 2010 and 2009, was $18.9 million and $9.1 million, respectively. Depreciation expense for computer software was $5.9 million, $4.2 million and $4.3 million for the years ended December 31, 2010, 2009 and 2008, respectively.

14. Lease Arrangements

We have operating leases that cover our corporate office headquarters, various warehouse and office facilities, office equipment and transportation equipment. The remaining terms of these leases range from one year to seven years, and in most cases we expect that these leases will be renewed or replaced by other leases in the normal course of business. We have no significant capital leases as of December 31, 2010 or 2009.

The following is a summary of future minimum rental payments and sublease rentals to be received under operating leases that have initial or remaining noncancelable terms in excess of one year at December 31, 2010 (in thousands):

2011	$ 17,777
2012	13,099
2013	10,207
2014	6,996
2015	4,727
Thereafter	1,620
Total minimum rental payments	54,426
Less: minimum sublease rentals	(47)
Net minimum rental payments	$ 54,379

Total rental expense incurred under operating leases for continuing operations follows (in thousands):

	For the Years Ended December 31,		
	2010	2009	2008
Total rental payments	**$ 21,777**	$ 21,219	$ 18,867
Less sublease rentals	**(237)**	(270)	(265)
Net rental expense	**$ 21,540**	$ 20,949	$ 18,602

15. Pension and Retirement Plans

Retirement obligations under various plans cover substantially all full-time employees who meet age and/or service eligibility requirements. The major plans providing retirement benefits to our employees are defined contribution plans. Expenses charged to continuing operations for our retirement and profit-sharing plans, excess benefit plans and other similar plans were $11.4 million, $15.1 million and $2.7 million for the years ended December 31, 2010, 2009 and 2008, respectively. These expenses include the impact of market gains and losses on assets held in deferred compensation plans.

We have excess benefit plans for key employees whose participation in the qualified plans is limited by U.S. Employee Retirement Income Security Act requirements. Benefits are determined based on theoretical participation in the qualified plans. Benefits are only invested in mutual funds, and participants are not permitted to diversify accumulated benefits in shares of our stock. Trust assets invested in shares of our stock are included in treasury stock, and the corresponding liability is included in a separate component of stockholders' equity. At December 31, 2010, these trusts held 99,494 shares or $2.0 million of our stock (2009 — 102,027 shares or $1.9 million).

16. Earnings Per Share

The computation of earnings per share follows (in thousands, except per share data):

For the Years Ended December 31,	Income from Continuing Operations Income	Shares	Earnings per Share	Net Income Income	Shares	Earnings per Share
2010						
Earnings	**$ 81,831**	**22,587**	**$ 3.62**	**$ 81,831**	**22,587**	**$ 3.62**
Dilutive stock options	**—**	**348**		**—**	**348**	
Nonvested stock awards	**—**	**96**		**—**	**96**	
Diluted earnings	**$ 81,831**	**23,031**	**$ 3.55**	**$ 81,831**	**23,031**	**$ 3.55**
2009						
Earnings	$ 74,037	22,451	$ 3.30	$ 73,784	22,451	$ 3.29
Dilutive stock options	—	229		—	229	
Nonvested stock awards	—	62		—	62	
Diluted earnings	$ 74,037	22,742	$ 3.26	$ 73,784	22,742	$ 3.24
2008						
Earnings	$68,369	23,058	$ 2.97	$67,281	23,058	$ 2.92
Dilutive stock options	—	287		—	287	
Nonvested stock awards	—	29		—	29	
Diluted earnings	$68,369	23,374	$ 2.93	$67,281	23,374	$ 2.88

During 2010, 970,900 stock options were excluded from the computation of diluted earnings per share as their exercise prices were greater than the average market price during most of the year. During 2009, 819,917 stock options were also excluded. During 2008, 827,917 stock options were also excluded.

Diluted earnings per share may be impacted in future periods as the result of the issuance of our $200 million Notes and related purchased call options and sold warrants. Per FASB's authoritative guidance on the effect of contingently convertible instruments on diluted earnings per share and convertible bonds with issuer option to settle for cash upon conversion, we will not include any shares related to the Notes in our calculation of diluted earnings per share until our average stock price for a quarter exceeds the current conversion price. We would then include in our diluted earnings per share calculation those shares issuable using the treasury stock method. The amount of shares issuable is based upon the amount by which the average stock price for the quarter exceeds the conversion price. The purchased call option does not impact the calculation of diluted earnings per share, as it is always anti-dilutive. The sold warrants become dilutive when our average stock price for a quarter exceeds the strike price of the warrant.

The following table provides examples of how changes in our stock price impact the number of shares that would be included in our diluted earnings per share calculation. 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 by the Company upon Conversion (b)
$ 80.73	18,136	—	18,136	(19,401)	(1,265)
90.73	273,379	—	273,379	(292,452)	(19,073)
100.73	477,943	—	477,943	(511,289)	(33,346)
110.73	645,559	119,282	764,841	(690,600)	74,241
120.73	785,408	316,210	1,101,618	(840,206)	261,412
130.73	903,861	483,010	1,386,871	(966,924)	419,947

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.

17. Financial Instruments

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

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of December 31, 2010 (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	$ 28,304	$ 28,304	$ —	$ —
Long-term debt	159,208	189,065	—	—

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.

18. Loans Receivable from Independent Contractors

At December 31, 2010, we had contractual arrangements with 63 independent contractors to provide plumbing repair and drain cleaning services under sublicensing agreements using the Roto-Rooter name in lesser-populated areas of the United States and Canada. The arrangements give the independent contractors the right to conduct a plumbing and drain cleaning business using the Roto-Rooter name in a specified territory in exchange for a royalty based on a percentage of labor sales, generally approximately 40%. We also pay for certain telephone directory advertising in these areas, lease certain capital equipment and provide operating manuals to serve as resources for operating a plumbing and drain cleaning business. The contracts are generally cancelable upon 90 days’ written notice (without cause) or upon a few days notice (with cause). The independent contractors are responsible for running the businesses as they believe best.

Our maximum exposure to loss from arrangements with our independent contractors at December 31, 2010 is approximately $1.1 million (2009 — $1.3 million). The exposure to loss is mainly the result of loans provided to the independent contractors. In most cases, these loans are partially secured by receivables and equipment owned by the independent contractor. The interest rates on the loans range from zero to 8% per annum, and the remaining terms of the loans range from 2.5 months to 5.4 years at December 31, 2010. During 2010, we recorded revenues of $22.9 million (2009 — $21.6 million; 2008 — $22.0 million) and pretax profits of $10.7 million (2009 — $9.5 million; 2008 — $9.5 million) from our independent contractors.

19. Legal and Regulatory Matters

Litigation

On March 1, 2010 Anthony Morangelli and Frank Ercole filed a class action lawsuit in federal district court for the Eastern District of New York seeking unpaid minimum wages and overtime service technician compensation from Roto-Rooter and Chemed. They also seek payment of penalties, interest and plaintiffs' attorney fees. We contest these allegations. In September 2010, the Court conditionally certified a nationwide class of service technicians, excluding those who signed dispute resolution agreements in which they agreed to arbitrate claims arising out of their employment. There has been no final determination of the merits of collective treatment of the case. We are unable to estimate our potential liability, if any, with respect to this case.

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. 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. In December 2009, the trial court denied Plaintiffs' motion for class certification. We are unable to estimate our potential liability, if any, with respect to this case.

Regardless of outcome, defense of litigation adversely affects us through defense costs, diversion of our time and related publicity.

Regulatory Matters

In May 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. In August 2009, the OIG selected medical records for 59 past and current patients from a Texas program for review. In February 2010, VITAS received a companion civil investigative demand ("CID") from the state of Texas Attorney General's Office, seeking related documents. In September 2010, it received a second CID and a second administrative subpoena seeking related documents. We can neither predict the outcome of this investigation nor estimate our potential liability, if any. We believe that we are in compliance with Medicare and Medicaid rules and regulations applicable to hospice providers

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. We are unable to estimate our potential liability, if any, with respect to this matter.

The costs to comply with either of these investigations were not material for any period presented. Regardless of outcome, responding to the subpoenas can adversely affect us through defense costs, diversion of our time and related publicity.

20. Related Party Transactions

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 90 days prior written notice. VITAS made purchases from OCR of $36.1 million, $33.1 million and $32.9 million for the years ended December 31, 2010, 2009 and 2008, respectively. VITAS' accounts payable to OCR and its subsidiaries are not material at December 31, 2010 and 2009.

Mr. Joel F. Gemunder retired as President and Chief Executive Officer of OCR during the third quarter of 2010 and is a director of the Company. Ms. Andrea Lindell is a director 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.

21. Capital Stock Transactions

For the year ended December 31, 2010, we repurchased 1.6 million shares at a weighted average cost per share of $63.14 under the April 2007 program. For the year ended December 31, 2009, we repurchased 15,900 shares at a weighted average cost per share of $46.65 under the April 2007 program. On December 27, 2010 our Board of Directors authorized an additional $70 million to the April 2007 stock repurchase program. On May 19, 2008 our Board of Directors authorized an additional $56 million to the April 2007 stock repurchase program. On April 26, 2007, our Board of Directors authorized a $150 million stock repurchase program.

22. Subsequent Events

In February 2011, our Board of Directors authorized a $100 million expansion to our share repurchase authority.

In February 2011, the CIC approved a new stock-price target portion of the Company's LTIP. The new stock price hurdles are as follows:

Stock Price Hurdle	Shares to be Issued
$79.00	25,000
$85.00	25,000
$90.00	25,000
Total	75,000

The stock price hurdles must be achieved during 30 trading days out of any 60 trading day period during the three years ending February 18, 2014.

In February 2011, the CIC approved a time-based LTIP award of 42,000 shares that cliff vest in four years. The pre-tax cost of the award was $2.7 million.

In January 2011, we met the $62 stock price target of our LTIP. On January 14, 2011 the CIC approved a stock grant of 41,100 shares (including 7,350 shares from the discretionary pool) and the related allocation to participants. The pretax cost of the stock grant was $3.0 million.

23. Guarantor Subsidiaries

Our 1.875% Senior Convertible Notes issued on May 14, 2007, are fully and unconditionally guaranteed on an unsecured, joint and severally liable basis by our 100% owned subsidiaries. The equity method has been used with respect to the parent company's (Chemed) investment in subsidiaries. No consolidating adjustment column is presented for the condensed consolidating statement of cash flow since there were no signficant consolidating entries for the periods presented. The following condensed, consolidating financial data present the composition of the parent company, the guarantor subsidiaries and the non-guarantor subsidiaries as of December 31, 2010 and 2009, and for the years ended December 31, 2010, 2009 and 2008 (in thousands):

December 31, 2010	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Cash and cash equivalents	$ 45,324	$ (1,571)	$ 6,164	$ —	$ 49,917
Accounts receivable, less allowances	802	111,716	481	—	112,999
Intercompany receivables	—	172,426	—	(172,426)	—
Inventories	—	7,191	537	—	7,728
Current deferred income taxes	(688)	15,666	120	—	15,098
Prepaid income taxes	2,787	(1,809)	(208)	—	770
Prepaid expenses	782	9,244	259	—	10,285
Total current assets	49,007	312,863	7,353	(172,426)	196,797
Investments of deferred compensation plans held in trust	—	—	28,304	—	28,304
Properties and equipment, at cost, less accumulated depreciation	12,513	64,743	2,036	—	79,292
Identifiable intangible assets less accumulated amortization	—	56,410	—	—	56,410
Goodwill	—	453,864	4,479	—	458,343
Other assets	6,049	2,791	2,175	—	11,015
Investments in subsidiaries	716,815	18,696	—	(735,511)	—
Total assets	$ 784,384	$909,367	$ 44,347	$ (907,937)	$ 830,161
LIABILITIES AND STOCKHOLDERS' EQUITY					
Accounts payable	$ 4,924	$ 50,457	$ 448	$ —	$ 55,829
Intercompany payables	167,067	—	5,359	(172,426)	—
Income taxes	(7,190)	8,745	(394)	—	1,161
Accrued insurance	906	35,586	—	—	36,492
Accrued compensation	4,235	35,016	468	—	39,719
Other current liabilities	1,549	13,447	1,145	—	16,141
Total current liabilities	171,491	143,251	7,026	(172,426)	149,342
Deferred income taxes	(11,356)	45,168	(8,727)	—	25,085
Long-term debt	159,208	—	—	—	159,208
Deferred compensation liabilities	—	—	27,851	—	27,851
Other liabilities	2,992	3,123	511	—	6,626
Stockholders' equity	462,049	717,825	17,686	(735,511)	462,049
Total liabilities and stockholders' equity	$ 784,384	$909,367	$ 44,347	$ (907,937)	$ 830,161

December 31, 2009	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Cash and cash equivalents	$ 109,331	$ (1,221)	$ 4,306	$ —	$ 112,416
Accounts receivable, less allowances	618	52,303	540	—	53,461
Intercompany receivables	—	149,888	—	(149,888)	—
Inventories	—	7,009	534	—	7,543
Current deferred income taxes	(378)	14,048	31	—	13,701
Prepaid income taxes	(3,227)	4,161	(185)	—	749
Prepaid expenses	770	9,545	73	—	10,388
Total current assets	107,114	235,733	5,299	(149,888)	198,258
Investments of deferred compensation plans held in trust	—	—	24,158	—	24,158
Properties and equipment, at cost, less accumulated depreciation	10,309	62,912	2,137	—	75,358
Identifiable intangible assets less accumulated amortization	—	57,920	—	—	57,920
Goodwill	—	445,662	4,380	—	450,042
Other assets	11,190	2,232	312	—	13,734
Investments in subsidiaries	643,572	15,523	—	(659,095)	—
Total assets	$772,185	$819,982	$ 36,286	$ (808,983)	$ 819,470

LIABILITIES AND STOCKHOLDERS' EQUITY					
Accounts payable	$ (2,411)	$ 54,084	$ 398	$ —	$ 52,071
Intercompany payables	147,744	—	2,144	(149,888)	—
Income taxes	(2,145)	2,159	49	—	63
Accrued insurance	1,231	33,930	—	—	35,161
Accrued compensation	4,235	30,020	407	—	34,662
Other current liabilities	1,643	11,367	1,117	—	14,127
Total current liabilities	150,297	131,560	4,115	(149,888)	136,084
Deferred income taxes	(10,549)	43,183	(6,710)	—	25,924
Long-term debt	152,127	—	—	—	152,127
Deferred compensation liabilities	—	—	23,637	—	23,637
Other liabilities	3,148	1,388	—	—	4,536
Stockholders' equity	477,162	643,851	15,244	(659,095)	477,162
Total liabilities and stockholders' equity	$772,185	$819,982	$ 36,286	$ (808,983)	$ 819,470

For the year ended December 31, 2010	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Continuing Operations					
Net sales and service revenues	$ —	$1,254,856	$ 25,689	$ —	$1,280,545
Cost of services provided and goods sold	—	892,596	13,420	—	906,016
Selling, general and administrative expenses	23,262	170,223	8,479	—	201,964
Depreciation	860	22,732	794	—	24,386
Amortization	1,404	3,253	—	—	4,657
Total costs and expenses	25,526	1,088,804	22,693	—	1,137,023
Income/ (loss) from operations	(25,526)	166,052	2,996	—	143,522
Interest expense	(11,596)	(363)	—	—	(11,959)
Other (expense)/income — net	15,520	(15,451)	2,199	—	2,268
Income/ (loss) before income taxes	(21,602)	150,238	5,195	—	133,831
Income tax (provision)/ benefit	6,859	(56,905)	(1,954)	—	(52,000)
Equity in net income of subsidiaries	96,574	3,308	—	(99,882)	—
Net income	$ 81,831	$ 96,641	$ 3,241	$ (99,882)	$ 81,831

For the year ended December 31, 2009	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Continuing Operations					
Net sales and service revenues	$ —	$1,166,972	$ 23,264	$ —	$1,190,236
Cost of services provided and goods sold	—	822,788	11,786	—	834,574
Selling, general and administrative expenses	23,199	163,600	10,627	—	197,426
Depreciation	602	20,221	712	—	21,535
Amortization	1,222	5,145	—	—	6,367
Other operating expenses	3,989	—	—	—	3,989
Total costs and expenses	29,012	1,011,754	23,125	—	1,063,891
Income/ (loss) from operations	(29,012)	155,218	139	—	126,345
Interest expense	(11,040)	(565)	6	—	(11,599)
Other (expense)/income — net	5,428	(5,422)	5,868	—	5,874
Income/ (loss) before income taxes	(34,624)	149,231	6,013	—	120,620
Income tax (provision)/ benefit	12,058	(56,543)	(2,098)	—	(46,583)
Equity in net income of subsidiaries	96,603	4,043	—	(100,646)	—
Income from continuing operations	74,037	96,731	3,915	(100,646)	74,037
Discontinued Operations	(253)	—	—	—	(253)
Net income	$ 73,784	$ 96,731	$ 3,915	$ (100,646)	$ 73,784

For the year ended December 31, 2008	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Continuing Operations					
Net sales and service revenues	$ —	$1,124,063	$ 24,878	$ —	$1,148,941
Cost of services provided and goods sold	—	798,173	12,374	—	810,547
Selling, general and administrative expenses	19,644	158,214	(2,525)	—	175,333
Depreciation	504	20,382	695	—	21,581
Amortization	960	4,964	—	—	5,924
Other operating expenses	2,699	—	—	—	2,699
Total costs and expenses	23,807	981,733	10,544	—	1,016,084
Income/ (loss) from operations	(23,807)	142,330	14,334	—	132,857
Interest expense	(11,722)	(398)	(3)	—	(12,123)
Gain on extinguishment of debt	3,406	—	—	—	3,406
Other (expense)/income — net	4,381	(4,070)	(9,047)	—	(8,736)
Income/ (loss) before income taxes	(27,742)	137,862	5,284	—	115,404
Income tax (provision)/ benefit	10,036	(51,849)	(5,222)	—	(47,035)
Equity in net income of subsidiaries	86,075	1,403	—	(87,478)	—
Income from continuing operations	68,369	87,416	62	(87,478)	68,369
Discontinued Operations	(1,088)	—	—	—	(1,088)
Net income	$ 67,281	$ 87,416	$ 62	$ (87,478)	$ 67,281

Chemed Corporation and Subsidiary Companies

For the year ended December 31, 2010	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Cash Flow from Operating Activities:				
Net cash provided by operating activities	$ 2,862	$ 81,781	$ 1,369	$ 86,012
Cash Flow from Investing Activities:				
Capital expenditures	(18)	(24,677)	(944)	(25,639)
Business combinations, net of cash acquired	—	(9,469)	—	(9,469)
Proceeds from sale of property and equipment	—	275	15	290
Other sources/(uses) — net	(157)	(963)	238	(882)
Net cash used by investing activities	(175)	(34,834)	(691)	(35,700)
Cash Flow from Financing Activities:				
Purchases of treasury stock	(109,326)	—	(4)	(109,330)
Dividends paid to shareholders	(11,881)	—	—	(11,881)
Proceeds from exercise of stock options	5,327	—	—	5,327
Realized excess tax benefit on share based compensation	3,357	—	—	3,357
Change in cash overdrafts payable	1,645	(2,226)	—	(581)
Change in intercompany accounts	44,135	(45,071)	936	—
Other sources — net	49	—	248	297
Net cash provided/ (used) by financing activities	(66,694)	(47,297)	1,180	(112,811)
Net increase/(decrease) in cash and cash equivalents	(64,007)	(350)	1,858	(62,499)
Cash and cash equivalents at beginning of year	109,331	(1,221)	4,306	112,416
Cash and cash equivalents at end of period	$ 45,324	$ (1,571)	$ 6,164	$ 49,917

For the year ended December 31, 2009	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Cash Flow from Operating Activities:				
Net cash provided by operating activities	$ 950	$ 153,387	$ 6,495	$ 160,832
Cash Flow from Investing Activities:				
Capital expenditures	(448)	(20,394)	(654)	(21,496)
Business combinations, net of cash acquired	—	(1,919)	—	(1,919)
Net payments from sale of discontinued operations	(328)	(302)	—	(630)
Proceeds from sale of property and equipment	1,285	292	—	1,577
Other sources/(uses) — net	(255)	(302)	183	(374)
Net cash provided/(used) by investing activities	254	(22,625)	(471)	(22,842)
Cash Flow from Financing Activities:				
Change in cash overdrafts payable	19	2,872	—	2,891
Change in intercompany accounts	140,674	(135,226)	(5,448)	—
Dividends paid to shareholders	(8,157)	—	—	(8,157)
Purchases of treasury stock	(4,225)	—	—	(4,225)
Proceeds from exercise of stock options	545	—	—	545
Realized excess tax benefit on share based compensation	1,955	—	—	1,955
Net decrease in revolving line of credit	(8,200)	—	—	(8,200)
Repayment of long-term debt	(14,500)	(169)	—	(14,669)
Other sources/(uses) — net	(49)	338	369	658
Net cash provided/ (used) by financing activities	108,062	(132,185)	(5,079)	(29,202)
Net increase/(decrease) in cash and cash equivalents	109,266	(1,423)	945	108,788
Cash and cash equivalents at beginning of year	65	202	3,361	3,628
Cash and cash equivalents at end of period	$ 109,331	$ (1,221)	$ 4,306	$ 112,416

For the year ended December 31, 2008	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Cash Flow from Operating Activities:				
Net cash provided/(used) by operating activities	$ (8,912)	$ 118,904	$ 2,091	$ 112,083
Cash Flow from Investing Activities:				
Capital expenditures	(9,492)	(15,576)	(1,026)	(26,094)
Business combinations, net of cash acquired	—	(11,200)	—	(11,200)
Net proceeds from sale of discontinued operations	8,824	—	—	8,824
Proceeds from sale of property and equipment	10	342	35	387
Other sources/(uses) — net	(660)	123	(7)	(544)
Net cash used by investing activities	(1,318)	(26,311)	(998)	(28,627)
Cash Flow from Financing Activities:				
Change in cash overdrafts payable	(1,106)	250	—	(856)

Change in intercompany accounts	90,906	(91,249)	343	—
Dividends paid to shareholders	(5,543)	—	—	(5,543)
Purchases of treasury stock	(69,788)	—	—	(69,788)
Proceeds from exercise of stock options	291	—	—	291
Realized excess tax benefit on share based compensation	2,422	—	—	2,422
Net increase in revolving line of credit	8,200	—	—	8,200
Repayment of long-term debt	(18,551)	(162)	—	(18,713)
Other sources/(uses) — net	(413)	354	(770)	(829)
Net cash provided/ (used) by financing activities	6,418	(90,807)	(427)	(84,816)
Net increase/(decrease) in cash and cash equivalents	(3,812)	1,786	666	(1,360)
Cash and cash equivalents at beginning of year	3,877	(1,584)	2,695	4,988
Cash and cash equivalents at end of period	$ 65	$ 202	$ 3,361	$ 3,628

Chemed Corporation and Subsidiary Companies

UNAUDITED SUMMARY OF QUARTERLY RESULTS

Chemed Corporation and Subsidiary Companies
(in thousands, except per share and footnote data)

For the Year Ended December 31, 2010	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Continuing Operations					
Total service revenues and sales	$308,813	$314,995	$320,451	$336,286	$1,280,545
Gross profit	$ 89,676	$ 91,293	$ 92,536	$101,024	$ 374,529
Income from operations	$ 34,445	$ 33,856	$ 36,755	$ 38,466	$ 143,522
Interest expense	(2,952)	(2,999)	(2,995)	(3,013)	(11,959)
Other income/(expense)—net	186	10	222	1,850	2,268
Income before income taxes	31,679	30,867	33,982	37,303	133,831
Income taxes	(12,321)	(12,012)	(12,994)	(14,673)	(52,000)
Net Income (a)	$ 19,358	$ 18,855	$ 20,988	$ 22,630	$ 81,831
Earnings Per Share (a)					
Net income	$ 0.86	$ 0.83	$ 0.93	$ 1.00	$ 3.62
Average number of shares outstanding	22,593	22,644	22,597	22,534	22,587
Diluted Earnings Per Share (a)					
Net income	$ 0.84	$ 0.82	$ 0.91	$ 0.98	$ 3.55
Average number of shares outstanding	23,021	23,080	22,996	23,070	23,031

(a) The following amounts are included in income from continuing operations during the respective quarter (in thousands):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Pretax (cost)/benefit:					
Stock option expense	$ (2,051)	$ (2,346)	$ (1,968)	$ (1,397)	$ (7,762)
Noncash impact of change in accounting for convertible debt	(1,655)	(1,688)	(1,721)	(1,756)	(6,820)
Long-term incentive compensation	—	(1,799)	—	(2,935)	(4,734)
Acquisition expenses	—	—	—	(324)	(324)
Expenses of class action litigation	—	(105)	(322)	(1,426)	(1,853)
Expenses incurred in connection with the Office of Inspector General investigation	(160)	(118)	(112)	(622)	(1,012)
Total	$ (3,866)	$ (6,056)	$ (4,123)	$ (8,460)	$ (22,505)
Aftertax (cost)/benefit:					
Stock option expense	$ (1,298)	$ (1,484)	$ (1,244)	$ (883)	$ (4,909)
Noncash impact of change in accounting for convertible debt	(1,047)	(1,068)	(1,088)	(1,110)	(4,313)
Long-term incentive compensation	—	(1,124)	—	(1,833)	(2,957)
Acquisition expenses	—	—	—	(198)	(198)
Expenses of class action litigation	—	(63)	(194)	(869)	(1,126)
Expenses incurred in connection with the Office of Inspector General investigation	(99)	(74)	(69)	(385)	(627)
Total	$ (2,444)	$ (3,813)	$ (2,595)	$ (5,278)	$ (14,130)

Chemed Corporation and Subsidiary Companies

UNAUDITED SUMMARY OF QUARTERLY RESULTS

(in thousands, except per share and footnote data)

For the Year Ended December 31, 2009	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Continuing Operations					
Total service revenues and sales .	$294,938	$295,255	$296,794	$ 303,249	$1,190,236
Gross profit	$ 87,925	$ 87,918	$ 87,906	$ 91,913	$ 355,662
Income from operations	$ 34,726	$ 27,938	$ 32,786	$ 30,895	$ 126,345
Interest expense	(2,844)	(3,142)	(2,853)	(2,760)	(11,599)
Other income/(expense)—net	(276)	3,358	1,733	1,059	5,874
Income before income taxes	31,606	28,154	31,666	29,194	120,620
Income taxes	(12,267)	(10,904)	(12,456)	(10,956)	(46,583)
Income from continuing operations (a)	19,339	17,250	19,210	18,238	74,037
Discontinued Operations	—	—	—	(253)	(253)
Net Income (a)	$ 19,339	$ 17,250	$ 19,210	$ 17,985	$ 73,784
Earnings Per Share (a)					
Income from continuing operations	$ 0.86	$ 0.77	$ 0.86	$ 0.81	$ 3.30
Net income	$ 0.86	$ 0.77	$ 0.86	$ 0.80	$ 3.29
Average number of shares outstanding	22,394	22,417	22,461	22,551	22,451
Diluted Earnings Per Share (a)					
Income from continuing operations	$ 0.85	$ 0.76	$ 0.84	$ 0.80	$ 3.26
Net income	$ 0.85	$ 0.76	$ 0.84	$ 0.78	$ 3.24
Average number of shares outstanding	22,647	22,672	22,744	22,937	22,742

(a) The following amounts are included in income from continuing operations during the respective quarter (in thousands):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Pretax (cost)/benefit:					
Stock option expense	$ (2,042)	$ (2,443)	$ (2,214)	$ (1,940)	$ (8,639)
Noncash impact of change in accounting for convertible debt	(1,530)	(1,561)	(1,591)	(1,623)	(6,305)
Non-taxable income from certain investments held in deferred compensation trusts	1,211	—	—	—	1,211
Expenses associated with contested proxy solicitiation	(545)	(3,444)	—	—	(3,989)
Expenses incurred in connection with the Office of Inspector General investigation	(13)	(86)	(343)	(144)	(586)
Long-term incentive compensation	—	—	—	(5,007)	(5,007)
Costs related to litigation settlements	—	—	—	(882)	(882)
Total	$ (2,919)	$ (7,534)	$ (4,148)	$(9,596)	$ (24,197)
Aftertax (cost)/benefit:					
Stock option expense	$ (1,292)	$ (1,544)	$ (1,401)	$ (1,227)	$ (5,464)
Noncash impact of change in accounting for convertible debt	(968)	(987)	(1,006)	(1,027)	(3,988)
Non-taxable income from certain investments held in deferred compensation trusts	1,211	—	—	—	1,211
Income tax impact of nondeductible losses on investments held in deferred compensation trusts	(475)	20	—	—	(455)
Expenses associated with contested proxy solicitiation	(345)	(2,180)	—	—	(2,525)
Expenses incurred in connection with the Office of Inspector General investigation	(8)	(53)	(213)	(89)	(363)
Long-term incentive compensation	—	—	—	(3,134)	(3,134)
Costs related to litigation settlements	—	—	—	(534)	(534)
Total	$ (1,877)	$ (4,744)	$ (2,620)	$ (6,011)	$(15,252)

SELECTED FINANCIAL DATA

Chemed Corporation and Subsidiary Companies
(in thousands, except per share and footnote data, ratios, percentages and personnel)

	2010	2009	2008	2007	2006
Summary of Operations					
Continuing operations (a)					
Service revenues and sales	$1,280,545	$1,190,236	$1,148,941	$1,100,058	$1,018,587
Gross profit (excluding depreciation)	374,529	355,662	338,394	332,992	288,464
Depreciation	24,386	21,535	21,581	20,118	16,775
Amortization	4,657	6,367	5,924	5,270	5,255
Income from operations	143,522	126,345	132,857	122,755	104,979
Income from continuing operations (b)	81,831	74,037	68,369	60,440	57,722
Net income (b)	81,831	73,784	67,281	61,641	50,651
Earnings per share					
Income from continuing operations	$ 3.62	$ 3.30	$ 2.97	$ 2.46	$ 2.21
Net income	3.62	3.29	2.92	2.51	1.94
Average number of shares outstanding	22,587	22,451	23,058	24,520	26,118
Diluted earnings per share					
Income from continuing operations	$ 3.55	$ 3.26	$ 2.93	$ 2.41	$ 2.16
Net income	3.55	3.24	2.88	2.46	1.90
Average number of shares outstanding	23,031	22,742	23,374	25,077	26,669
Cash dividends per share	$ 0.52	$ 0.36	$ 0.24	$ 0.24	$ 0.24
Financial Position—Year-End					
Cash and cash equivalents	$ 49,917	$ 112,416	$ 3,628	$ 4,988	$ 29,274
Working capital/(deficit)	47,455	62,174	(18,142)	(13,427)	(3,951)
Current ratio	1.32	1.46	0.88	0.91	0.98
Properties and equipment, at cost less accumulated depreciation	$ 79,292	$ 75,358	$ 76,962	$ 74,513	$ 70,140
Total assets	830,161	819,470	759,622	768,945	791,461
Long-term debt	159,208	152,127	158,210	163,715	150,331
Stockholders' equity	462,049	477,162	396,831	395,800	421,361
Other Statistics—Continuing Operations					
Capital expenditures	$ 25,639	$ 21,496	$ 26,094	$ 26,640	$ 21,987
Number of employees	13,058	12,308	11,884	11,783	11,621

(a) Continuing operations exclude VITAS of Arizona, discontinued in 2006, Service America, discontinued in 2004 and Patient Care discontinued in 2002

(b) The following amounts are included in income from continuing operations during the respective year (in thousands):

	2010	2009	2008	2007	2006
After-tax benefit/(cost):					
Stock option expense	**$ (4,909)**	$ (5,464)	$ (4,619)	$ (2,962)	$ (769)
Noncash impact of change in accounting for convertible debt	**(4,313)**	(3,988)	(4,006)	(2,335)	
Long-term incentive compensation	**(2,957)**	(3,134)	—	(4,427)	—
Expenses associated with contested proxy solicitation	—	(2,525)	—	—	—
Non-taxable income on certain investments held in deferred compensation trusts	—	1,211	—	—	—
Costs related to litigation settlements	**(1,126)**	(534)	—	(1,168)	(169)
Income tax impact of nondeductible losses on investments held in deferred compensation trusts	—	(455)	(3,062)	(46)	—
Expenses incurred in connection with the Office of Inspector General investigation	**(627)**	(363)	(28)	(141)	(662)
Acquisition Expense	**(198)**	—	—	—	—
Gain/(loss) on extinguishment of debt	—	—	2,934	(8,778)	(273)
Loss on impairment of transportation equipment	—	—	(1,714)	—	—
Unreserved prior-year's insurance claim	—	—	(358)	—	—
Income tax credits or adjustments related to prior years	—	—	322	—	2,115
Gain on sale of property	—	—	—	724	—
Loss on impairment of investment	—	—	—	—	(918)
Other	—	—	—	296	296
Total	**$ (14,130)**	$(15,252)	$(10,531)	$(18,837)	$ (380)

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
UNAUDITED CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands)(unaudited)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
2010				
Service revenues and sales	$925,810	$ 354,735	$ —	$1,280,545
Cost of services provided and goods sold	709,094	196,922	—	906,016
Selling, general and administrative expenses	73,755	100,731	27,478	201,964
Depreciation	16,161	7,775	450	24,386
Amortization	2,739	514	1,404	4,657
Total costs and expenses	801,749	305,942	29,332	1,137,023
Income/(loss) from operations	124,061	48,793	(29,332)	143,522
Interest expense	(131)	(233)	(11,595)	(11,959)
Intercompany interest income/(expense)	4,632	2,612	(7,244)	—
Other income/(expense)—net	(165)	53	2,380	2,268
Income/(loss) before income taxes	128,397	51,225	(45,791)	133,831
Income taxes	(48,601)	(19,547)	16,148	(52,000)
Net income/(loss)	$ 79,796	$ 31,678	$ (29,643)	$ 81,831

(a) The following amounts are included in income from continuing operations (in thousands):

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	$ —	$ —	$ (7,762)	$ (7,762)
Noncash impact of change in accounting for convertible debt	—	—	(6,820)	(6,820)
Long-term incentive compensation	—	—	(4,734)	(4,734)
Expenses of class action litigation	—	(1,853)	—	(1,853)
Acquisition Expense	(68)	(256)	—	(324)
Expenses incurred in connection with the Office of Inspector General investigation	(1,012)	—	—	(1,012)
Total	$ (1,080)	$ (2,109)	$(19,316)	$ (22,505)

	VITAS	Roto-Rooter	Corporate	Consolidated
After-tax benefit/(cost):				
Stock option expense	$ —	$ —	$ (4,909)	$ (4,909)
Noncash impact of change in accounting for convertible debt	—	—	(4,313)	(4,313)
Long-term incentive compensation	—	—	(2,957)	(2,957)
Expenses of class action litigation	—	(1,126)	—	(1,126)
Acquisition Expense	(42)	(156)	—	(198)
Expenses incurred in connection with the Office of Inspector General investigation	(627)	—	—	(627)
Total	$ (669)	$ (1,282)	$(12,179)	$ (14,130)

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
UNAUDITED CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2009
(in thousands)(unaudited)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
2009				
Service revenues and sales	$ 854,343	$ 335,893	$ —	$ 1,190,236
Cost of services provided and goods sold	653,212	181,362	—	834,574
Selling, general and administrative expenses	71,643	95,073	30,710	197,426
Depreciation	13,269	8,068	198	21,535
Amortization	4,704	441	1,222	6,367
Other operating expenses	—	—	3,989	3,989
Total costs and expenses	742,828	284,944	36,119	1,063,891
Income/(loss) from operations	111,515	50,949	(36,119)	126,345
Interest expense	(374)	(186)	(11,039)	(11,599)
Intercompany interest income/(expense)	4,314	2,514	(6,828)	—
Other income/(expense)—net	(122)	135	5,861	5,874
Income/(loss) before income taxes	115,333	53,412	(48,125)	120,620
Income taxes	(43,637)	(20,372)	17,426	(46,583)
Income/(loss) from continuing operations	71,696	33,040	(30,699)	74,037
Discontinued operations	—	—	(253)	(253)
Net income/(loss)	$ 71,696	$ 33,040	$ (30,952)	$ 73,784

(a) The following amounts are included in income from continuing operations (in thousands):

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	$ —	$ —	$ (8,639)	$ (8,639)
Noncash impact of change in accounting for convertible debt	—	—	(6,305)	(6,305)
Long-term incentive compensation	—	—	(5,007)	(5,007)
Expenses associated with contested proxy solicitation	—	—	(3,989)	(3,989)
Non-taxable income on certain investments held in deferred compensation trusts	—	—	1,211	1,211
Costs related to litigation settlements	—	(882)	—	(882)
Expenses incurred in connection with the Office of Inspector General investigation	(586)	—	—	(586)
Gain/(loss) on extinguishment of debt	—	—	—	—
Total	$ (586)	$ (882)	$ (22,729)	$ (24,197)

	VITAS	Roto-Rooter	Corporate	Consolidated
After-tax benefit/(cost):				
Stock option expense	$ —	$ —	$ (5,464)	$ (5,464)
Noncash impact of change in accounting for convertible debt	—	—	(3,988)	(3,988)
Long-term incentive compensation	—	—	(3,134)	(3,134)
Expenses associated with contested proxy solicitation	—	—	(2,525)	(2,525)
Non-taxable income on certain investments held in deferred compensation trusts	—	—	1,211	1,211
Income tax impact of nondeductible losses on investments held in deferred compensation trusts	—	—	(455)	(455)
Costs related to litigation settlements	—	(534)	—	(534)
Expenses incurred in connection with the Office of Inspector General investigation	(363)	—	—	(363)
Gain/(loss) on extinguishment of debt	—	—	—	—
Total	$ (363)	$ (534)	$ (14,355)	$ (15,252)

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
UNAUDITED CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2008
(in thousands)(unaudited)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
2008				
Service revenues and sales	$ 808,445	$ 340,496	$ —	$1,148,941
Cost of services provided and goods sold	625,177	185,370	—	810,547
Selling, general and administrative expenses	67,750	95,971	11,612	175,333
Depreciation	13,000	8,294	287	21,581
Amortization	4,651	313	960	5,924
Other operating expenses	—	—	2,699	2,699
Total costs and expenses	710,578	289,948	15,558	1,016,084
Income/(loss) from operations	97,867	50,548	(15,558)	132,857
Interest expense	(155)	(246)	(11,722)	(12,123)
Intercompany interest income/(expense)	5,199	3,708	(8,907)	—
Gain on extinguishment of debt	—	—	3,406	3,406
Other income/(expense)—net	(149)	61	(8,648)	(8,736)
Income/(loss) before income taxes	102,762	54,071	(41,429)	115,404
Income taxes	(38,458)	(20,644)	12,067	(47,035)
Income/(loss) from continuing operations	64,304	33,427	(29,362)	68,369
Discontinued operations	—	—	(1,088)	(1,088)
Net income/(loss)	$ 64,304	$ 33,427	$ (30,450)	$ 67,281

(a) The following amounts are included in income from continuing operations (in thousands):

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	$ —	$ —	$ (7,303)	$ (7,303)
Noncash impact of change in accounting for convertible debt	—	—	(6,139)	(6,139)
Impairment loss on transportation equipment	—	—	(2,699)	(2,699)
Gain on extinguishment of debt	—	—	3,406	3,406
Unreserved prior-year's insurance claim	—	(597)	—	(597)
Expenses incurred in connection with the Office of Inspector General investigation	(46)	—	—	(46)
Total	$ (46)	$ (597)	$(12,735)	$ (13,378)

	VITAS	Roto-Rooter	Corporate	Consolidated
After-tax benefit/(cost):				
Stock option expense	$ —	$ —	$ (4,619)	$ (4,619)
Noncash impact of change in accounting for convertible debt	—	—	(4,006)	(4,006)
Impairment loss on transportation equipment	—	—	(1,714)	(1,714)
Gain on extinguishment of debt	—	—	2,934	2,934
Income tax impact of non-deductible net market losses on investments held in deferred compensation trusts	—	—	(3,062)	(3,062)
Unreserved prior-year's insurance claim	—	(358)	—	(358)
Expenses incurred in connection with the Office of Inspector General investigation	(28)	—	—	(28)
Income tax credit related to prior years	322	—	—	322
Total	$ 294	$ (358)	$(10,467)	$ (10,531)

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 (“VITAS”) and Roto-Rooter Group, Inc. (“Roto-Rooter”). 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 is 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 years ended December 31, 2010, 2009 and 2008 (in thousands except percentages and per share amounts):

	2010	2009	2008
Consolidated service revenues and sales	**$1,280,545**	$1,190,236	$1,148,941
Consolidated income from continuing operations	**$ 81,831**	$ 74,037	$ 68,369
Diluted EPS from continuing operations	**$ 3.55**	$ 3.26	$ 2.93
Adjusted EBITDA	**$ 189,395**	$ 177,050	$ 161,754
Adjusted EBITDA as a % of revenue	**14.8%**	14.9%	14.1%

* See page 50 for reconciliation to GAAP measures

EBITDA and Adjusted EBITDA are not measures derived in accordance with GAAP. We use Adjusted EBITDA as a measure of earnings for our LTIP awards. We provide EBITDA and Adjusted EBITDA to help readers evaluate our operating results, compare our operating performance with that of similar companies that have different capital structures and help evaluate our ability to meet future debt service, capital expenditure and working capital requirements. Our EBITDA and Adjusted EBITDA should not be considered in isolation or as a substitute for comparable measures presented in accordance with GAAP. A reconciliation of our net income to our Adjusted EBITDA is presented in tables following the Critical Accounting Policy section.

2010 versus 2009

The increase in consolidated service revenues and sales from 2009 to 2010 was driven by an 8.4% increase at VITAS and a 5.6% increase at Roto-Rooter. The increase at VITAS was the result of an increase in average daily census (“ADC”) of 6.1%, driven by an increase in admissions of 5.6%, combined with Medicare price increases of approximately 1.3%. The increase at Roto-Rooter was driven by a 7.3% price and mix shift increase as well as a 0.4% increase in job count. Consolidated income from continuing operations increased 10.5% over prior year mainly as a result of the increase in revenues, which allowed us to further leverage our current cost structure. Diluted EPS from continuing operations increased as the result of increased earnings. Adjusted earnings before interest, taxes, depreciation and amortization (“EBITDA”) increased 7.0% from 2009 to 2010 mainly as a result of increased earnings.

2009 versus 2008

The increase in consolidated service revenues and sales from 2008 to 2009 was driven by a 5.7% increase at VITAS offset by an approximate 1.4% decrease at Roto-Rooter. The increase at VITAS was the result of an increase in ADC of 1%, Medicare price increases and an increase due to changes in the mix of care. The decrease at Roto-Rooter was driven by a 7% decrease in the job count offset by an approximate 6% price and mix shift increase. Consolidated income from continuing operations and diluted EPS from continuing operations increased as a result of higher service revenues and sales, which allowed us to further leverage our current cost structure. Adjusted EBITDA increased 9.5% from 2008 to 2009 and Adjusted EBITDA as a percent of revenue increased from 14.1% to 14.9%.

Impact of Current Market Conditions

We expect Roto-Rooter to achieve full-year 2011 revenue growth of 5% to 8%. This is a result of increased pricing of approximately 3.0%, a favorable mix shift to higher revenue jobs, with job count flat to up 3%. Adjusted EBITDA margin for 2011 is estimated in the range of 16.5% to 17.5%.

We expect VITAS to achieve full-year 2011 revenue growth, prior to Medicare cap, of 7% to 9%. Admissions are estimated to increase 5% to 7%. This revenue estimate includes the October 1, 2010, 2.1% increase in average hospice reimbursement rates. We also expect VITAS to have estimated Medicare contractual billing limitations of $5.0 million. Adjusted EBITDA margin for 2011 is estimated to be in the range of 15.3% to 16.3%.

LIQUIDITY AND CAPITAL RESOURCES

Significant factors affecting our cash flows during 2010 and financial position at December 31, 2010, include the following:

- Our continuing operations generated cash of $86.0 million;
- We repurchased $109.3 million of our stock using cash on hand;
- Accounts receivable increased $68.7 million due to timing of receipts;
- We spent $25.6 million on capital expenditures.

The ratio of total debt to total capital was 25.6% at December 31, 2010, compared with 24.2% at December 31, 2009. Our current ratio was 1.32 and 1.46 at December 31, 2010 and 2009, respectively.

Collectively, the 2007 Facility and the Notes require us to meet certain restrictive non-financial and financial covenants. We are in compliance with all non-financial debt covenants as of December 31, 2010. The restrictive financial covenants are defined in the credit agreement and include maximum leverage ratios, minimum fixed charge coverage and consolidated net worth ratios, limits on operating leases and minimum asset value limits. We are in compliance with all financial debt covenants as of December 31, 2010, as follows:

Description	Requirement	Chemed
Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA)	< 3.50 to 1.00	1.15 to 1.00
Fixed Charge Coverage Ratio (Consolidated Free Cash Flow/Consolidated Fixed Charges)	> 1.50 to 1.00	2.26 to 1.00
Minimum Net Worth	> $350.3 million	$393.4 million
Annual Operating Lease Commitment	< $30.0 million	$17.8 million
Credit Party Asset Value	> $700.0 million	$809.3 million

We forecast to be in compliance with all debt covenants through fiscal 2011.

We have issued $28.0 million in standby letters of credit as of December 31, 2010, mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of December 31, 2010, we have approximately $147.0 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the expansion feature. We have not borrowed against our line of credit for 2010. We believe our cash flow from operating activities and our unused eligible lines of credit are sufficient to fund our obligations and operate our business in the near and long term. We continually evaluate cash utilization alternatives, including share repurchase, debt repurchase, acquisitions, and increased dividends to determine the most beneficial use of available capital resources.

CASH FLOW

Our cash flows for 2010, 2009 and 2008 are summarized as follows (in millions):

	For the Years Ended December 31,		
	2010	2009	2008
Net cash provided by operating activities	**$ 86.0**	$ 160.8	$ 112.1
Capital expenditures	**(25.6)**	(21.5)	(26.1)
Operating cash excess after capital expenditures	**60.4**	139.3	86.0
Purchase of treasury stock	**(109.3)**	(4.2)	(69.8)
Repayment of long-term debt	**—**	(22.9)	(18.7)
Business combinations	**(9.5)**	(1.9)	(11.2)
Net proceeds/(uses) from sale of discontinued operations	**(0.2)**	(0.6)	8.8
Proceeds from issuance of long-term debt, net of costs	**—**	—	8.2
Dividends paid	**(11.9)**	(8.2)	(5.5)
Proceeds from exercise of stock options	**5.3**	0.5	0.3
Other—net	**2.7**	6.8	0.5
(Decrease)/increase in cash and cash equivalents	**$ (62.5)**	$ 108.8	$ (1.4)

COMMITMENTS AND CONTINGENCIES

We are subject to various lawsuits and claims in the normal course of our business. In addition, we periodically receive communications from governmental and regulatory agencies concerning compliance with Medicare and Medicaid billing requirements at our VITAS subsidiary. To the extent it is available and management deems it prudent, we carry commercial insurance against such claims. We establish reserves for specific, uninsured liabilities in connection with regulatory and legal action that we deem to be probable and estimable. We disclose the existence of regulatory and legal actions when we believe it is reasonably possible that a loss could occur in connection with the specific action. In most instances, we are unable to make a reasonable estimate of any reasonably possible liability due to the uncertainty of the outcome and stage of litigation. We record legal fees associated with legal and regulatory actions as the costs are incurred.

In connection with the sale of DuBois Chemicals, Inc. (“DuBois”) in 1991, we provided allowances and accruals relating to several long-term costs, including income tax matters, lease commitments and environmental costs. Also, in conjunction with the sales of The Omnia Group (“Omnia”) and National Sanitary Supply Company in 1997 and the sale of Service America Network Inc. (“Service America”) in 2005, we provided long-term allowances and accruals relating to costs of severance arrangements, lease commitments and income tax matters. Additionally, we retain liability for casualty insurance claims for Service America and Patient Care that were incurred prior to the disposal date. In connection with the sale of VITAS’ Phoenix operation in November 2006, we have accrued an estimate of our total exposure for the Medicare Cap through the date of sale. In the aggregate, we believe these allowances and accruals are adequate as of December 31, 2010. Based on reviews of our environmental-related liabilities under the DuBois sale agreement, we have estimated our remaining liability to be $1.7 million. As of December 31, 2010, we are contingently liable for additional cleanup and related costs up to a maximum of $14.9 million. We do not believe it is probable that we will be required to make any payment towards this contingent liability. Thus, no provision has been recorded in accordance with the applicable accounting guidance.

On March 1, 2010 Anthony Morangelli and Frank Ercole filed a class action lawsuit in federal district court for the Eastern District of New York seeking unpaid minimum wages and overtime service technician compensation from Roto-Rooter and Chemed. They also seek payment of penalties, interest and plaintiffs’ attorney fees. We contest these allegations. In September 2010, the Court conditionally certified a nationwide class of service technicians, excluding those who signed dispute resolution agreements in which they agreed to arbitrate claims arising out of their employment. There has been no final determination of the merits of collective treatment of the case. We are unable to estimate our potential liability, if any, with respect to this case.

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. 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. In December 2009, the trial court denied Plaintiffs’ motion for class certification. We are unable to estimate our potential liability, if any, with respect to this case.

Regardless of outcome, defense of litigation adversely affects us through defense costs, diversion of our time and related publicity.

In May 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. In August 2009, the OIG selected medical records for 59 past and current patients from a Texas program for review. In February 2010, VITAS received a companion civil investigative demand ("CID") from the state of Texas Attorney General's Office, seeking related documents. In September 2010, it received a second CID and a second administrative subpoena seeking related documents. We can neither predict the outcome of this investigation nor estimate our potential liability, if any. We believe that we are in compliance with Medicare and Medicaid rules and regulations applicable to hospice providers.

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. We are unable to estimate our potential liability, if any, with respect to this matter.

The costs to comply with either of these investigations were not material for any period presented. Regardless of outcome, responding to the subpoenas can adversely affect us through defense costs, diversion of our time and related publicity.

CONTRACTUAL OBLIGATIONS

The table below summarizes our debt and contractual obligations as of December 31, 2010 (in thousands):

	Total	Less than 1 year	1-3 Years	4 -5 Years	After 5 Years
Long-term debt obligations (a)	$186,956	$ —	$186,956	$ —	$ —
Interest on long-term debt	12,466	3,562	8,904	—	—
Operating lease obligations	54,426	17,777	23,305	11,722	1,622
Purchase obligations (b)	55,829	55,829	—	—	—
Other long-term obligations (c)	32,770	—	2,459	2,460	27,851
Total contractual cash obligations	$ 342,447	$ 77,168	$ 221,624	$ 14,182	$ 29,473

(a) Represents the face value of the obligation.

(b) Purchase obligations primarily consist of accounts payable at December 31, 2010.

(c) Other long-term obligations comprise largely pension and excess benefit obligations.

RESULTS OF OPERATIONS

2010 Versus 2009 — Consolidated Results

Set forth below are the year-to-year changes in the components of the statement of operations relating to continuing operations for 2010 versus 2009 (in thousands, except percentages):

	Favorable/(Unfavorable)	
	Amount	**Percent**
Service revenues and sales		
VITAS	$ 71,467	8
Roto-Rooter	18,842	6
Total	90,309	8
Cost of services provided and goods sold	(71,442)	(9)
Selling, general and administrative expenses	(4,538)	(2)
Depreciation	(2,851)	(13)
Amortization	1,710	27
Other expenses	3,989	100
Income from operations	17,177	14
Interest expense	(360)	(3)
Other income —net	(3,606)	(61)
Income before income taxes	13,211	11
Income taxes	(5,417)	(12)
Income from continuing operations	$ 7,794	11

Our service revenues and sales for the year ended December 31, 2010 increased $90.3 million or 7.6% over the comparable prior year. The VITAS segment accounted for $71.5 million of the increase and Roto-Rooter accounted for $18.8 million of the increase.

The VITAS segment revenue increase is the result of the following (dollars in thousands):

	Amount	Percent
Routine homecare	$ 51,154	8
Continuous care	11,778	8
General inpatient	8,232	9
Estimated BNAF	(1,950)	(100)
Medicare cap	2,253	137
Total revenues	$ 71,467	8

The increase in VITAS' revenue from 2009 to 2010 was a result of increased ADC of 6.1% driven by an increase in admissions of 5.6%, combined with Medicare price increases of approximately 1.3%. The ADC increase was driven by an 6.1% increase in routine homecare, an increase of 5.3% in continuous care, and an 6.9% increase in general inpatient. ADC is a key measure we use to monitor volume growth in our hospice programs. Changes in total program admissions, discharges and average length of stay for our patients are the main drivers of changes in ADC. The $1.95 million in BNAF was recorded in the first quarter of 2009 but related to hospice care provided in the fourth quarter of 2008 and did not recur in 2010. The Medicare cap amount recorded in 2010 relates to the reversal of $1.7 million, net of Medicare cap liability for the 2010 measurement period recorded in the fourth quarter of 2009 offset by $1.1 million in Medicare cap liability for three programs' projected 2011 measurement period liability.

The Roto-Rooter segment revenue increase is the result of the following (dollars in thousands):

	Amount	Percent
Plumbing	$ 17,553	12
Sewer and drain cleaning	(799)	(1)
Other	2,088	4
Total revenues	$ 18,842	6

Plumbing revenues for 2010 increased from 2009 due to a 10.2% increase in the average price per job and an increase of 3.7% in the number of jobs performed. The increase in the plumbing price per job was driven by a combination of increased pricing and favorable job mix shift to more expensive jobs such as excavation. Our excavation job count increased by 21.5% compared to 2009. The average revenue per excavation job is approximately 5.5 times greater than other average plumbing jobs. Sewer and drain cleaning revenues for 2010 decreased from 2009 due to a 1.1% decrease in jobs performed partially offset by a 2.4% increase in the average price per job. The increase in other revenues is attributable to an increase in our independent contractor operations and an increase in product sales.

The consolidated gross margin was 29.2% in 2010 versus 29.9% in 2009. On a segment basis, VITAS' gross margin was 23.4% in 2010 and 23.5% in 2009. Roto-Rooter's gross margin was 44.5% in 2010 and 46.0% in 2009. VITAS gross margin was essentially flat compared to 2009. Roto-Rooter's gross margin decreased as a result of higher casualty and medical insurance expense as well as the continued mix shift to excavation which has higher revenue per job but slightly slower gross margin percentage per job.

Selling, general and administrative expenses ("SG&A") for 2010 comprise (in thousands):

	2010	2009
SG&A expenses before long-term incentive compensation and the impact of market gains of deferred compensation plans	**$195,020**	$187,828
Long-term incentive compensation	**4,734**	5,007
Impact of market value gains on liabilities held in deferred compensation trusts	**2,210**	4,591
Total SG&A expenses	**$201,964**	$197,426

Normal salary increases and revenue related expenses between periods account for the 3.8% increase in SG&A expenses before long-term incentive compensation and the impact of market gains of deferred compensation plans

Depreciation expense increased $2.9 million (13.6%) in 2010 mainly due to the installation of patient capture software at our VITAS segment in the second quarter of 2010.

There were no other operating expenses for 2010. Other operating expenses for 2009 of $4.0 million are related to the expenses of a contested proxy solicitation.

Interest expense increased $360,000 (3.1%) from 2009 to 2010 mainly due to an increase in bond discount amortization related to accounting for our convertible notes.

Other income for 2010 and 2009 comprise (in thousands):

	2010	2009
Market value gains on assets held in deferred compensation trusts	**$ 2,210**	$ 4,591
Loss on disposal of property and equipment	**(425)**	(369)
Interest income	**444**	423
Gain on settlement of company-owned life insurance	—	1,211
Other	**39**	18
Total other income	**$ 2,268**	$ 5,874

Our effective tax rate was 38.9% in 2010 compared to 38.6% in 2009.

In December 2009, we recorded a $400,000 pre-tax charge for retrospective casualty insurance claims related to our discontinued operations. There was no such charge in 2010.

Income from continuing operations for both periods include the following aftertax adjustments that increased/ (reduced) aftertax earnings (in thousands):

	2010	2009
VITAS		
Costs associated with the OIG investigation	**$ (627)**	$ (363)
Acquisition Expense	**(42)**	—
Roto-Rooter		
Costs related to litigation settlements	**(1,126)**	(534)
Acquisition Expense	**(156)**	—
Corporate		
Long-term incentive compensation	**(2,957)**	(3,134)
Noncash impact of change in accounting for convertible debt	**(4,313)**	(3,988)
Stock option expense	**(4,909)**	(5,464)
Expenses associated with contested proxy solicitation	—	(2,525)
Impact of non-deductible losses and non-taxable gains on investments held in deferred compensation trusts	—	756
Total	**$ (14,130)**	$(15,252)

2010 Versus 2009 — Segment Results

The change in net income for 2010 versus 2009 is due to (in thousands, except percentages):

	Increase/(Decrease)	
	Amount	Percent
VITAS	$ 8,100	11
Roto-Rooter	(1,362)	(4)
Corporate	1,056	3
Discontinued operations	253	100
	$ 8,047	11

2009 Versus 2008 — Consolidated Results

Set forth below are the year-to-year changes in the components of the statement of operations relating to continuing operations for 2009 versus 2008 (in thousands, except percentages):

	Favorable/(Unfavorable)	
	Amount	**Percent**
Service revenues and sales		
VITAS	$ 45,898	6
Roto-Rooter	(4,603)	(2)
Total	41,295	4
Cost of services provided and goods sold	(24,027)	(3)
Selling, general and administrative expenses	(22,093)	(13)
Depreciation	46	—
Amortization	(443)	(7)
Other expenses	(1,290)	(48)
Income from operations	(6,512)	(5)
Interest expense	524	4
Gain on extinguishment of debt	(3,406)	(100)
Other income —net	14,610	167
Income before income taxes	5,216	5
Income taxes	452	1
Income from continuing operations	$ 5,668	8

Our service revenues and sales for the year ended December 31, 2009 increased $41.3 million or 3.6% over the comparable prior year. The VITAS segment accounted for $45.9 million of the increase offset by a $4.6 million revenue decrease for the Roto-Rooter segment.

The VITAS segment revenue increase is the result of the following (dollars in thousands):

	Amount	Percent
Routine homecare	$ 29,517	5
Continuous care	16,378	13
General inpatient	(539)	(1)
Estimated BNAF	1,950	—
Medicare cap	(1,408)	599
Total revenues	$ 45,898	6

The revenue increase for VITAS includes increases in the Medicare reimbursement rate of approximately 3.5% as well as a $1.95 million increase for the BNAF, recorded in the first quarter of 2009 but related to hospice care provided in the fourth quarter of 2008. In addition, the ADC for routine homecare and continuous care increased 0.9% and 7.4%, respectively, from 2008. ADC for general inpatient decreased 2.6% from 2008 to 2009. ADC is a key measure we use to monitor volume growth in our hospice programs. Changes in total program admissions, discharges and average length of stay for our patients are the main drivers of changes in ADC. The Medicare cap amount recorded in 2009 relates predominantly to one program's liability through year end for the 2010 measurement period. We are currently pursuing corrective actions to attempt to mitigate the liability before the end of the measurement period. The 2008 revenue reduction for Medicare cap relates to one program's liability through year end for the 2009 measurement period. This amount was subsequently reversed during the 2009 fiscal year due to improved admission trends.

The Roto-Rooter segment revenue decrease is the result of the following (dollars in thousands):

	Amount	Percent
Plumbing	$ 5,241	4
Sewer and drain cleaning	(9,647)	(7)
Other	(197)	—
Total revenues	$ (4,603)	(1)

Plumbing revenues for 2009 increased from 2008 due to a 13% increase in the average price per job offset by an 8% decrease in the number of jobs performed. The increase in the plumbing price per job was driven mainly by job mix. Our excavation job count increased by 13% compared to 2008. The average revenue per excavation job is approximately 5 times greater than other average plumbing jobs. Sewer and drain cleaning revenues for 2009 decreased from 2008 due to a 7% decrease in jobs performed partially offset by a 1% increase in the average price per job. Other revenue types are essentially flat when compared with 2008.

The consolidated gross margin was 29.9% in 2009 versus 29.5% in 2008. On a segment basis, VITAS' gross margin was 23.5% in 2009 and 22.7% in 2008. Roto-Rooter's gross margin was 46.0% in 2009 and 45.6% in 2008. The increase in VITAS' gross margin is a result of the $1.95 million BNAF adjustment related to the fourth quarter of 2008 and refinements to scheduled field labor, offset by an increase to Medicare cap liability of $1.4 million. Roto-Rooter's gross margin increased primarily as a result of favorable technician turnover rates and lower health insurance expense.

Selling, general and administrative expenses ("SG&A") for 2009 increased $22.1 million (13%). Included in SG&A is a $13.1 million increase related to the increase in our deferred compensation liability due to improved stock market performance. The offset to the increased liability is recorded in other (non-operating) income and expense. Also included in the SG&A increase is a 2009 LTIP award of $5.0 million, an increase of $1.3 million in stock option expense, an increase in OIG expense of $540,000 and $882,000 related to litigation settlements. The remaining change in SG&A is the result of typical cost of living increases for salaries and benefits plus increases in certain selling expenses which vary based on changes in revenue.

Other operating expenses for 2009 of $4.0 million are related to the expenses of a contested proxy solicitation. The $2.7 million of operating expense for 2008 relates to an impairment charge on an eight passenger Hawker jet built in 1979. In

December 2008, the Executive Committee of the Board of Directors authorized us to place the 29 year-old Hawker for sale. We determined that this asset met the definition of held for sale under FASB's guidance. As a result, we discontinued depreciation on the jet and wrote-down the asset to its fair value less selling costs resulting in a pre-tax charge to other operating expenses — net of approximately $2.7 million. In March 2009, we sold the jet and recognized an $112,000 gain on disposal.

Interest expense decreased $524,000 (4%) from 2008 to 2009 mainly due to repayment in 2008 of $13.0 million face value of our Convertible Notes due May 2014 and repayment of remaining term loan in 2009.

Other income/ (expense) — net was $5.9 million income in 2009 compared to an $8.7 million expense in 2008. The change is primarily the result of a $14.9 million gain from investments held in deferred compensation plans due to market conditions.

Our effective tax rate was 38.6% in 2009 compared to 40.8% in 2008. The decrease in the effective income tax rate is due primarily due to the impact of non-taxable gains and non-deductible losses on investments in our deferred compensation benefit trusts.

In December 2009, we recorded a $400,000 pre-tax charge for retrospective casualty insurance claims related to our discontinued operations. In 2008, the amount recorded for retrospective casualty insurance claims related to discontinued operations was a $1.7 million pre-tax charge.

Income from continuing operations for both periods include the following aftertax adjustments that increased/ (reduced) aftertax earnings (in thousands):

	2009	2008
VITAS		
Costs associated with the OIG investigation	**$ (363)**	$ (28)
Tax adjustments required upon expiration of statutes	—	322
Roto-Rooter		
Costs related to litigation settlements	**(534)**	—
Unreserved prior year's insurance claims	—	(358)
Corporate		
Stock option expense	**(5,464)**	(4,619)
Noncash impact of change in accounting for convertible debt	**(3,988)**	(4,006)
Long-term incentive compensation	**(3,134)**	—
Expenses associated with contested proxy solicitation	**(2,525)**	—
Impact of non-deductible losses and non-taxable gains on investments held in deferred compensation trusts	**756**	(3,062)
Gain on extinguishment of debt	—	2,934
Impairment of transportation equipment	—	(1,714)
Total	**$ (15,252)**	$(10,531)

2009 Versus 2008 — Segment Results

The change in net income for 2009 versus 2008 is due to (in thousands, except percentages):

	Increase/(Decrease)	
	Amount	Percent
VITAS	$ 7,392	12
Roto-Rooter	(387)	(1)
Corporate	(1,337)	5
Discontinued operations	835	77
	$ 6,503	10

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

For both the Roto-Rooter and VITAS segments, service revenues and sales are recognized when the earnings process has been completed. Generally, this occurs when services are provided or products are delivered. Sales of Roto-Rooter products, including drain cleaning machines and drain cleaning solution, comprise less than 3% of our total service revenues and sales for each of the three years in the period ended December 31, 2010.

VITAS recognizes revenue at the estimated net realizable amount due from third-party payers, which are primarily Medicare and Medicaid. Payers may deny payment for services in whole or in part on the basis that such services are not eligible for coverage and do not qualify for reimbursement. We estimate denials each period and make adequate provision in the financial statements. The estimate of denials is based on historical trends and known circumstances and generally does not vary materially from period to period on an aggregate basis. Medicare billings are subject to certain limitations, as described below.

VITAS is subject to certain limitations on Medicare payments for services. Specifically, if the number of inpatient care days any hospice program provides to Medicare beneficiaries exceeds 20% of the total days of Medicare hospice care such program provides to all patients for an annual period beginning September 28, the days in excess of the 20% figure may be reimbursed only at the routine homecare rate. We have never had a program reach the inpatient cap. None of our hospice programs are expected to be within 30% of the inpatient cap for the 2010 measurement period while the majority of our programs have expected cushion in excess of 75% of the inpatient cap. Due to the significant cushion at each program, we do not anticipate it to be reasonably likely that any program will be subject to the inpatient cap in the foreseeable future.

VITAS is also subject to a Medicare annual per-beneficiary cap. Compliance with the Medicare cap is measured by comparing the total Medicare payments received under a Medicare provider number with respect to services provided to all Medicare hospice care beneficiaries in the program or programs covered by that Medicare provider number between November 1 of each year and October 31 of the following year with the product of the per-beneficiary cap amount and the number of Medicare beneficiaries electing hospice care for the first time from that hospice program or programs during the relevant period.

We actively monitor each of our hospice programs, by provider number, as to their specific admissions, discharge rate and median length of stay data in an attempt to determine whether they are likely to exceed the Medicare cap. Should we determine that a provider number is 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 that amount as a reduction in service revenue.

Our estimate of the Medicare cap liability is particularly sensitive to allocations made by our fiscal intermediary relative to patient transfers between hospices. We are allocated a percentage of the Medicare cap based on the total days a patient spent in hospice care. The allocation for patient transfers cannot be determined until a patient dies. As the number of days a patient spends in hospice is based on a future event, this allocation process may take several years. Therefore, we use only first time Medicare admissions in our estimate of the Medicare cap billing limitation. This method assumes that credit received for patients who transfer into our program will be offset by credit lost from patients who transfer out of our program. If the actual relationship of transfers in and transfers out for a given measurement period proves to be different for any program at or near a billing limitation, our estimate of the liability would increase or decrease on a dollar-for-dollar basis. While our method has historically been materially accurate, each program can vary during a given measurement period.

During the year ended December 31, 2010, we reversed Medicare cap liability for amounts recorded in the fourth quarter of 2009 for two programs' projected 2010 measurement period liability. This reversal was partially offset by the Medicare cap liability for three programs' projected 2011 measurement period liability. For the year ended December 31, 2009, we recorded pretax charges in continuing operations for the estimated Medicare cap liability for two programs' projected liability through year end for the 2010 measurement period. The majority of the liability relates to one program which is VITAS' largest hospice. This amount was subsequently reversed during the 2010 fiscal year due to increased admission trends. Shown below is the Medicare cap liability activity for the years end December 31, 2010 and 2009 (in thousands):

	2010	2009
Beginning Balance January 1,	$ 1,981	$ 338
Expense - 2011 measurement period	1,110	—
Expense/(reversal) - 2010 measurement period	(1,720)	1,783
Reversal - 2009 measurement period	—	(235)
Other retroactive billings	—	95
Ending Balance December 31,	$ 1,371	$ 1,981

The U.S. government revises hospice reimbursement rates on an annual basis using the Hospice Wage Index (HWI) and Consumer Price Index (CPI) plus a phase out of the Budget Neutrality Adjustment Factor (BNAF). The HWI is geographically adjusted to reflect local differences in wages. The BNAF is a portion of inflation calculated in prior years that is being eliminated or phased out over a seven year period. 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 twelve months ended December 31, 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.

In August 2009, the Centers for Medicare and Medicaid Services (CMS) revised the phase-out schedule of the BNAF. CMS reduced the increase in hospice reimbursement by 10% of the BNAF effective October 1, 2009. The remaining 90% of the BNAF will be phased out over the next six years by revising the October 1 reimbursement adjustment by 15% of the original BNAF inflation factor. Based upon this revised schedule, 100% of the BNAF will be eliminated on October 1, 2015.

Insurance Accruals

For the Roto-Rooter segment and Chemed's Corporate Office, we self-insure for all casualty insurance claims (workers' compensation, auto liability and general liability). As a result, we closely monitor and frequently evaluate our historical claims experience to estimate the appropriate level of accrual for self-insured claims. Our third-party administrator ("TPA") processes and reviews claims on a monthly basis. Currently, our exposure on any single claim is capped at $500,000. In developing our estimates, we accumulate historical claims data for the previous 10 years to calculate loss development factors ("LDF") by insurance coverage type. LDFs are applied to known claims to estimate the ultimate potential liability for known and unknown claims for each open policy year. LDFs are updated annually. Because this methodology relies heavily on historical claims data, the key risk is whether the historical claims are an accurate predictor of future claims exposure. The risk also exists that certain claims have been incurred and not reported on a timely basis. To mitigate these risks, in conjunction with our TPA, we closely monitor claims to ensure timely accumulation of data and compare claims trends with the industry experience of our TPA.

For the VITAS segment, we self-insure for workers' compensation claims. Currently, VITAS' exposure on any single claim is capped at $750,000. For VITAS' self-insurance accruals for workers' compensation, the valuation methods used are similar to those used internally for our other business units.

Our casualty insurance liabilities are recorded gross before any estimated recovery for amounts exceeding our stop loss limits. Estimated recoveries from insurance carriers are recorded as accounts receivable. Claims experience adjustments to our casualty and workers' compensation accrual for the years ended December 31, 2010, 2009 and 2008 were net, pretax debits/(credits) of $165,000, ($1.9 million) and ($52,000), respectively.

As an indication of the sensitivity of the accrued liability to reported claims, our analysis indicates that a 1% across-the-board increase or decrease in the amount of projected losses for all of our continuing operations would increase or decrease the accrued insurance liability at December 31, 2010, by $1.9 million or 5.3%. While the amount recorded represents our best estimate of the casualty and workers' compensation insurance liability, we have calculated, based on historical claims experience, the actual loss could reasonably be expected to increase or decrease by approximately $2.8 million as of December 31, 2010.

Income Taxes

Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amount of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in our opinion, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in laws and rates on the date of enactment.

We are subject to income taxes in the Federal and most state jurisdictions. We are periodically audited by various taxing authorities. Significant judgment is required to determine our provision for income taxes. We adopted FASB's authoritative guidance on accounting for uncertainty in income taxes, which prescribes a comprehensive model for how to recognize, measure, present and disclose in financial statements uncertain tax positions taken or expected to be taken on a tax return. Upon adoption of this guidance, the financial statements reflect expected future tax consequences of such uncertain positions assuming the taxing authorities' full knowledge of the position and all relevant facts.

Goodwill and Intangible Assets

Identifiable, definite-lived intangible assets arise from purchase business combinations and are amortized using either an accelerated method or the straight-line method over the estimated useful lives of the assets. The selection of an amortization method is based on which method best reflects the economic pattern of usage of the asset. The VITAS trade name is considered to have an indefinite life. Goodwill and the VITAS trade name are tested at least annually for impairment. The valuation of goodwill and the VITAS trade name is dependent upon many factors, some of which are market-driven and beyond our control. The valuation of goodwill and the VITAS trade name indicate no impairment. We have significant excess of estimated market value over our asset base for each reporting unit tested at October 1, 2009 and do not expect that an impairment charge is likely in the foreseeable future. However, we are unable to predict all factors that may impact future impairment analysis.

Stock-based Compensation Plans

Stock-based compensation cost is measured at the grant date, based on the fair value of the award and recognized as expense over the employee's requisite service period on a straight-line basis. We estimate the fair value of stock options using the Black-Scholes valuation model, consistent with the guidance provided by the FASB and the SEC. We determine expected term, volatility, dividend yield and forfeiture rate based on our historical experience. We believe that historical experience is the best indicator of these factors.

Contingencies

We are subject to various lawsuits and claims in the normal course of our business. In addition, we periodically receive communications from governmental and regulatory agencies concerning compliance with Medicare and Medicaid billing requirements at our VITAS subsidiary. To the extent it is available and management deems it prudent, we carry commercial insurance against such claims. We establish reserves for specific, uninsured liabilities in connection with regulatory and legal action that we deem to be probable and estimable. We record legal fees associated with legal and regulatory actions as the costs are incurred.

Chemed Corporation and Subsidiary Companies

Consolidating Summary of Adjusted EBITDA

(in thousands)

2010	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	$ 79,796	$ 31,678	$(29,643)	$ 81,831
Add/(deduct):				
Interest expense	131	233	11,595	11,959
Income taxes	48,601	19,547	(16,148)	52,000
Depreciation	16,161	7,775	450	24,386
Amortization	2,739	514	1,404	4,657
EBITDA	147,428	59,747	(32,342)	174,833
Add/(deduct):				
Long-term incentive compensation	—	—	4,734	4,734
Litigation settlement costs	—	1,853	—	1,853
Legal expenses of OIG investigation	1,012	—	—	1,012
Acquisition Expense	68	256	—	324
Stock option expense	—	—	7,762	7,762
Advertising cost adjustment	—	(679)	—	(679)
Interest income	(220)	(49)	(175)	(444)
Intercompany interest/(expense)	(4,632)	(2,612)	7,244	—
Adjusted EBITDA	$143,656	$ 58,516	$(12,777)	$189,395

2009	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	$ 71,696	$ 33,040	$ (30,952)	$ 73,784
Add/(deduct):				
Discontinued operations	—	—	253	253
Interest expense	374	186	11,039	11,599
Income taxes	43,637	20,372	(17,426)	46,583
Depreciation	13,269	8,068	198	21,535
Amortization	4,704	441	1,222	6,367
EBITDA	133,680	62,107	(35,666)	160,121
Add/(deduct):				
Long-term incentive compensation	—	—	5,007	5,007
Non-taxable income from certain investments held in deferred compensation trusts	—	—	(1,211)	(1,211)
Litigation settlement costs	—	882	—	882
Expenses associated with contested proxy solicitation	—	—	3,989	3,989
Legal expenses of OIG investigation	586	—	—	586
Stock option expense	—	—	8,639	8,639
Advertising cost adjustment	—	(540)	—	(540)
Interest income	(267)	(73)	(83)	(423)
Intercompany interest/(expense)	(4,314)	(2,514)	6,828	—
Adjusted EBITDA	$129,685	$ 59,862	$ (12,497)	$ 177,050

2008	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	$ 64,304	$ 33,427	$ (30,450)	$ 67,281
Add/(deduct):				
Discontinued operations	—	—	1,088	1,088
Interest expense	155	246	11,722	12,123
Income taxes	38,458	20,644	(12,067)	47,035
Depreciation	13,000	8,294	287	21,581
Amortization	4,651	313	960	5,924
EBITDA	120,568	62,924	(28,460)	155,032
Add/(deduct):				
Unreserved insurance claim	—	597	—	597
Impairment loss on transportation equipment	—	—	2,699	2,699
Legal expenses of OIG investigation	46	—	—	46
Stock option expense	—	—	7,303	7,303
Gain on extinguishment of debt	—	—	(3,406)	(3,406)

Advertising cost adjustment	—	225	—	225
Interest income	(137)	(116)	(489)	(742)
Intercompany interest/(expense)	(5,199)	(3,708)	8,907	—
Adjusted EBITDA	$115,278	$ 59,922	$ (13,446)	$ 161,754

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
OPERATING STATISTICS FOR VITAS SEGMENT
(unaudited)

OPERATING STATISTICS	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009	Year Ended December 31, 2010	Year Ended December 31, 2009
Net revenue ($000)				
Homecare	**$ 176,517**	$ 159,248	**$ 666,562**	$ 615,408
Inpatient	**27,344**	24,550	**105,588**	97,356
Continuous care	**39,463**	35,593	**153,050**	141,272
Total before Medicare cap allowance and 2008 BNAF	**$ 243,324**	$ 219,391	**$ 925,200**	$ 854,036
Estimated BNAF	**—**	—	**—**	1,950
Medicare cap allowance	**(1,056)**	(1,835)	**610**	(1,643)
Total	**$ 242,268**	$ 217,556	**$ 925,810**	$ 854,343
Net revenue as a percent of total before Medicare cap allowance				
Homecare	**72.6%**	72.6%	**72.0%**	72.1%
Inpatient	**11.2**	11.2	**11.4**	11.4
Continuous care	**16.2**	16.2	**16.6**	16.5
Total before Medicare cap allowance and 2008 BNAF	**100.0**	100.0	**100.0**	100.0
Estimated BNAF	**—**	—	**—**	0.2
Medicare cap allowance	**(0.4)**	(0.8)	**0.1**	(0.2)
Total	**99.6%**	99.2%	**100.1%**	100.0%
Average daily census (days)				
Homecare	**8,851**	7,933	**8,476**	7,730
Nursing home	**3,193**	3,253	**3,207**	3,281
Routine homecare	**12,044**	11,186	**11,683**	11,011
Inpatient	**436**	407	**434**	406
Continuous care	**600**	556	**596**	563
Total	**13,080**	12,149	**12,713**	11,980
Total Admissions	**14,776**	13,677	**58,526**	55,420
Total Discharges	**15,038**	13,667	**57,817**	54,814
Average length of stay (days)	**80.8**	76.4	**78.1**	76.0
Median length of stay (days)	**15.0**	14.0	**14.0**	14.0
ADC by major diagnosis				
Neurological	**33.9%**	33.0%	**33.6%**	33.0%
Cancer	**18.3**	18.8	**18.4**	19.1
Cardio	**11.7**	11.9	**11.9**	12.1
Respiratory	**6.6**	6.3	**6.6**	6.4
Other	**29.5**	30.0	**29.5**	29.4
Total	**100.0%**	100.0%	**100.0%**	100.0%
Admissions by major diagnosis				
Neurological	**19.5%**	18.8%	**18.8%**	18.1%
Cancer	**34.4**	35.8	**34.5**	35.7
Cardio	**11.0**	10.4	**11.3**	11.5
Respiratory	**7.4**	7.5	**8.0**	7.5
Other	**27.7**	27.5	**27.4**	27.2
Total	**100.0%**	100.0%	**100.0%**	100.0%
Direct patient care margins				
Routine homecare	**54.4%**	52.5%	**52.8%**	52.0%
Inpatient	**14.4**	11.6	**13.6**	14.6
Continuous care	**22.6**	20.1	**21.4**	20.2
Homecare margin drivers (dollars per patient day)				
Labor costs	**$ 51.97**	$ 51.89	**$ 52.57**	$ 52.27
Drug costs	**7.89**	7.58	**7.81**	7.63
Home medical equipment	**5.84**	6.91	**6.48**	6.86
Medical supplies	**2.67**	2.55	**2.56**	2.42
Inpatient margin drivers (dollars per patient day)				
Labor costs	**$ 305.19**	$ 300.26	**$ 299.54**	$ 287.16
Continuous care margin drivers (dollars per patient day)				
Labor costs	**$ 533.32**	$ 534.60	**$ 531.69**	$ 527.27
Bad debt expense as a percent of revenues	**0.7%**	1.1%	**0.9%**	1.1%

Accounts receivable —				
Days of revenue outstanding- excluding unapplied Medicare payments	**38.2**	48.3	**N.A.**	N.A.
Days of revenue outstanding- including unapplied Medicare payments	**36.5**	18.0	**N.A.**	N.A.

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. Such forward-looking statements and trends include, but are not limited to, the impact of laws and regulations on our operations, our estimate of future effective income tax rates and the recoverability of deferred tax assets. 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 our projections and other financial matters.

EXHIBIT 21
SUBSIDIARIES OF CHEMED CORPORATION

The following is a list of subsidiaries of the Company as of December 31, 2010: Other subsidiaries which have been omitted from the list would not, when considered in the aggregate, constitute a significant subsidiary. Each of the companies is incorporated under the laws of the state following its name. The percentage given for each company represents the percentage of voting securities of such company owned by the Company or, where indicated, subsidiaries of the Company as of December 31, 2010.

All of the majority owned companies listed below are included in the consolidated financial statements as of December 31, 2010.

Chemed RT, Inc. (Delaware, 100%)

Comfort Care Holdings Co. (Nevada, 100%)

Consolidated HVAC, Inc. (Ohio, 100% by Roto-Rooter Services Company)

Jet Resource, Inc. (Delaware, 100%)

Nurotoco of Massachusetts, Inc. (Massachusetts, 100% by Roto-Rooter Services Company)

Nurotoco of New Jersey, Inc. (Delaware, 80% by Roto-Rooter Services Company)

Roto RT, Inc. (Delaware, 100% by Roto-Rooter Group, Inc.)

Roto-Rooter Canada, Ltd. (British Columbia, 100% by Roto-Rooter Services Company)

Roto-Rooter Corporation (Iowa, 100% by Roto-Rooter Group, Inc.)

Roto-Rooter Development Company (Delaware, 100% by Roto-Rooter Corporation)

Roto-Rooter Group, Inc. (Delaware, 100%)

Roto-Rooter Services Company (Iowa, 100% by Roto-Rooter Group, Inc.)

RR Plumbing Services Corporation (New York, 49% by Roto-Rooter Group, Inc.; included within the consolidated financial statements as a consolidated subsidiary)

R.R. UK, Inc. (Delaware, 100% by Roto-Rooter Group, Inc.)

VITAS Care Solutions, Inc. (Delaware, 100% by VITAS Hospice Services L.L.C.)

VITAS Healthcare Corporation (Delaware, 100% by Comfort Care Holdings Co.)

VITAS Hospice Services, L.L.C. (Delaware, 100% by VITAS Healthcare Corporation)

VITAS Healthcare Corporation of Arizona (Delaware, 100% by VITAS Hospice Services, L.L.C.)

VITAS Healthcare Corporation of California (Delaware, 100% by VITAS Hospice Services, L.L.C.)

VITAS Healthcare Corporation of Illinois (Delaware, 100% by VITAS Hospice Services, L.L.C.)

VITAS Healthcare Corporation of Florida (Florida, 100% by VITAS Hospice Services, L.L.C.)

VITAS Healthcare Corporation of Ohio (Delaware, 100% by VITAS Hospice Services, L.L.C.)

VITAS Healthcare Corporation of Atlantic (Delaware, 100% by VITAS Hospice Services, L.L.C.)

VITAS Healthcare of Texas, L.P. (Texas, 99% by VITAS Holding Corporation, the limited partner, 1% by VITAS Hospice Services, L.L.C., the general partner)

VITAS Healthcare Corporation Midwest (Delaware, 100% by VITAS Hospice Services, L.L.C.)

VITAS Healthcare Corporation of Georgia (Delaware, 100% by VITAS Hospice Services, L.L.C.)

VITAS HME Solutions, Inc. (Delaware, 100% by VITAS Hospice Services, L.L.C.)

VITAS of North Florida, Inc. (Florida, 100% by VITAS Hospice Services, L.L.C.)

VITAS Holdings Corporation (Delaware, 100% by VITAS Hospice Services, L.L.C.)

VITAS Solutions, Inc. (Delaware, 100% by VITAS Hospice Services, L.L.C.)

Hospice Care Incorporated (Delaware, 100% by VITAS Hospice Services, L.L.C.)

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-145555) and Forms S-8 (Nos. 2- 87202, 2-80712, 33-65244, 33-61063, 333-109104, 333-118714, 333-34525, 333-87071, 333-134107, 333-87073 and 333-167733) of Chemed Corporation of our report dated February 28, 2011 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Stockholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 28, 2011 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Cincinnati, Ohio
February 28, 2011

EXHIBIT 24

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2010, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 24, 2011

/s/ Joel F. Gemunder

Joel F. Gemunder

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2010, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 23, 2011

/s/ Patrick P. Grace

Patrick P. Grace

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2010, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 23, 2011

/s/ Thomas C. Hutton
Thomas C. Hutton

POWER OF ATTORNEY

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Dated: February 23, 2011

/s/ Thomas P. Rice

Thomas P. Rice

POWER OF ATTORNEY

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Dated: February 23, 2011

/s/ Donald E. Saunders
Donald E. Saunders

POWER OF ATTORNEY

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Dated: February 23, 2011

/s/ George J. Walsh III
George J. Walsh III

POWER OF ATTORNEY

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Dated: February 23, 2011

/s/ Frank E. Wood

Frank E. Wood

POWER OF ATTORNEY

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Dated: February 23, 2011

/s/ Walter L. Krebs
Walter L. Krebs

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2010, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 23, 2011

/s/ Andrea R. Lindell

Andrea R. Lindell

EXHIBIT 31.1

CERTIFICATION PURSUANT TO RULES 13a-14(a)/15d-14(a) OF THE EXCHANGE ACT OF 1934

I, Kevin J. McNamara, certify that:

1. I have reviewed this annual report on Form 10-K of Chemed Corporation (“registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations, and cash flow of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls or procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by other within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors or persons performing the equivalent function:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: February 28, 2011

/s/ Kevin J. McNamara
Kevin J. McNamara
(President and Chief Executive Officer)

EXHIBIT 31.2

CERTIFICATION PURSUANT TO RULES 13a-14(a)/15d-14(a) OF THE EXCHANGE ACT OF 1934

I, David P. Williams, certify that:

1. I have reviewed this annual report on Form 10-K of Chemed Corporation ("registrant");
2. Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations, and cash flow of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls or procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by other within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors or persons performing the equivalent function:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 28, 2011

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

EXHIBIT 31.3

CERTIFICATION PURSUANT TO RULES 13a-14(a)/15d-14(a) OF THE EXCHANGE ACT OF 1934

I, Arthur V. Tucker, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Chemed Corporation ("registrant");
2. Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations, and cash flow of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls or procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by other within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors or persons performing the equivalent function:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 28, 2011

/s/ Arthur V. Tucker, Jr.

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

EXHIBIT 32.1

CERTIFICATION BY KEVIN J. MCNAMARA
PURUSANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as President and Chief Executive Officer of Chemed Corporation ("Company"), does hereby certify that:

1) The Company's Annual Report on Form 10-K for the year ending December 31, 2010 ("Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 28, 2011

/s/ Kevin J. McNamara
Kevin J. McNamara
(President and Chief Executive Officer)

EXHIBIT 32.2

CERTIFICATION DAVID P. WILLIAMS
PURUSANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Executive Vice President and Chief Financial Officer of Chemed Corporation ("Company"), does hereby certify that:

1) The Company's Annual Report on Form 10-K for the year ending December 31, 2010 ("Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 28, 2011

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

EXHIBIT 32.3

**CERTIFICATION BY ARTHUR V. TUCKER, JR.
PURUSANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Vice President and Controller of Chemed Corporation ("Company"), does hereby certify that:

1) The Company's Annual Report on Form 10-K for the year ending December 31, 2010 ("Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 28, 2011

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