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, 2013**

☐ **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)
Suite 2600, 255 East Fifth Street, Cincinnati, Ohio	45202-4726
(Address of principal executive offices)	(Zip Code)

(513) 762-6500
(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
Securities registered pursuant to Section 12(g) 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 definition of "accelerated filer, large accelerated filer and smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One): Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ 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 28, 2013 ($72.91 per share), was $1, 322,373,045.

At February 14, 2014, 17,727,672 shares of Chemed Capital Stock (par value $1 per share) were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Where Incorporated
2013 Annual Report to Stockholders (specified portions)	Parts I, II, and IV
Proxy Statement for Annual Meeting to be held May 19, 2014	Part III

CHEMED CORPORATION
2013 FORM 10-K ANNUAL REPORT

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Item 1. Business

General

Chemed Corporation (the Company or Chemed) 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 Special Products Group as of April 30, 1971 and remained a subsidiary of W.R. Grace & Co. until March 10, 1982.

Chemed purchases, operates and divests subsidiaries engaged in diverse business activities for the purposes of maximizing shareholder value. The Company's operating businesses are managed on a decentralized basis. There are few integrated business functions (such as sales, marketing or purchasing). Chemed's corporate office management participates in and is ultimately responsible for significant capital allocation decisions, investment activities, financial reporting, tax, legal and the selection of the key executives of each of the operating businesses. Since its inception, the Company has engaged in twelve significant acquisitions or divestitures of diverse business units.

During 2013, Chemed conducted its business operations in two segments: the VITAS segment (VITAS) and the Roto-Rooter segment (Roto-Rooter). VITAS Healthcare Corporation provides hospice and palliative care services to its patients through a network of physicians, registered nurses, home health aides, social workers, clergy and volunteers. Roto-Rooter provides plumbing and drain cleaning services to both residential and commercial customers.

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, 2011, 2012 and 2013 are shown in Note 5 of the Notes to Consolidated Financial Statements on pages 66-68 of the 2013 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 66-68 of the 2013 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.

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. Certain states require certificates of need to conduct hospice operations. In those states, we consider certificates of need valuable assets.

Seasonality

Roto-Rooter's revenue and operating results are impacted by significant weather patterns across the United States. Periods of above average precipitation or below freezing temperatures in areas we have significant company-owned operations will generally improve the revenue and operating results at Roto-Rooter.

A significant portion of our VITAS business is operated in the state of Florida. As the vast majority of our patients are Medicare recipients, retirees relocating to Florida during the winter months generally result in higher admissions and revenue for our Florida programs during that period.

Customer Concentration

Roto-Rooter's business has a large and diverse customer base. Approximately 90% of VITAS' revenue is from the United States government through the Medicare program. The loss of a portion or all of our Medicare revenue would have a material adverse effect on the Company.

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.

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 providers of hospice services in a market dominated primarily by small, non-profit, community-based hospices. Approximately 32% 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. 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 2013, approximately 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.

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 $26,157.50 per admission for the twelve-month period ended on October 31, 2013, 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.

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 2013 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. These base rates are further modified by the Hospice Wage Index to reflect local differences in wages according to the revised wage index. Effective April 1, 2013, the Federal government implemented a 2% reimbursement cut for all Medicare programs, including hospice. 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 or an actual decrease 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. 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.

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

Also in June 2011, the U.S. Attorney provided the Company with a partially unsealed *qui tam* complaint filed under seal in the U.S. District Court for the Northern District of Illinois, United States, et al. ex rel. Spottiswood v. Chemed Corp., 1:07-cv-4566 ("Spottiswood"). In April 2012, the complaint was unsealed. The U.S. Attorney and Attorney General for the State of Illinois filed notices in April and May 2012, respectively, stating that they had decided not to intervene in the case at that time but indicating that they continue to investigate the allegations. Plaintiff filed an amended complaint in November 2012. The complaint asserts violations of the federal False Claims Act and the Illinois Whistleblower Reward and Protection Act based on allegations that VITAS fraudulently billed Medicare and Medicaid for providing unwarranted continuous care services. The suit was brought by Laura Spottiswood, a former part-time pool registered nurse at VITAS, against Chemed, VITAS, and a VITAS affiliate. The complaint was served on the defendants on April 12, 2013. On May 29 and June 4, 2013, respectively, the Court granted the government's motion to partially intervene in Spottiswood and in Urick on the allegations that VITAS submitted or caused to be submitted false or fraudulent claims for continuous care and routine home care on behalf of certain ineligible Medicare beneficiaries. The Court also transferred them to the U.S. District Court for the Western District of Missouri under docket Nos. 4:13-cv-505 and 4:13-cv-563, respectively.

On May 2, 2013, the government filed a False Claims Act complaint against the Company and certain of its hospice-related subsidiaries in the U.S. District Court for the Western District of Missouri, United States v. VITAS Hospice Services, LLC, et al., 4:13-cv-00449-BCW (the "2013 Action"). Prior to that date, the Company received various subpoenas from the U.S. Department of Justice and OIG that have been previously disclosed. The 2013 Action alleges that, since at least 2002, VITAS, and since 2004, the Company, submitted or caused the submission of false claims to the Medicare program by (a) billing Medicare for continuous home care services when the patients were not eligible, the services were not provided, or the medical care was inappropriate, and (b) billing Medicare for patients who were not eligible for the Medicare hospice benefit because they did not have a life expectancy of six months or less if their illnesses ran their normal course. This complaint seeks treble damages, statutory penalties, and the costs of the action, plus interest. On August 1, 2013, the government filed its First Amended Complaint in the 2013 Action. The First Amended Complaint changed and supplemented some of the allegations, but did not otherwise expand the causes of action or the nature of the relief sought against VITAS. The defendants filed a motion to dismiss on September 24, 2013.

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

On September 25, 2013, the Court granted a joint motion by the government, the relators, and VITAS to consolidate the Spottiswood, Urick, and Gonzales complaints with the 2013 Action. As a result, the First Amended Complaint will govern the consolidated claims brought by the United States and the relators for all purposes. The relators and VITAS have stipulated that certain non-intervened claims will not be pursued by the relators.

VITAS has also received document subpoenas in related state matters. In February 2010, VITAS received a civil investigative demand ("CID") from the Texas Attorney General seeking documents from January 1, 2002 through the date of the CID, and interrogatory responses in connection with an investigation of possible fraudulent submission of Medicaid claims for non-qualifying patients and fraudulent shifting of costs from VITAS to the State of Texas and the United States. The CID requested similar information sought by prior Department of Justice subpoenas, including policy and procedure manuals and information concerning Medicare and Medicaid billing, patient statistics and sales and marketing practices, together with information concerning record-keeping and retention practices, and medical records concerning 117 patients. In September 2010, VITAS received a second CID from the Texas Attorney General seeking additional documents concerning business plans and results, revocation forms for certain patients, and electronic documents of 10 current and former employees. In July 2012, VITAS received an investigative subpoena from the Florida Attorney General seeking documents previously produced in the course of prior government investigations as well as, for the period January 1, 2007 through the date of production, billing records and procedures: information concerning business results, plans, and strategies; documents concerning patient eligibility for hospice care; and certain information concerning employees and their compensation.

The net costs to comply with these investigations were $2.1 million and $1.2 million for the years ending December 31, 2013 and 2012, respectively. Regardless of the outcome of any of the preceding matters, responding to the subpoenas and dealing with the various regulatory agencies can adversely affect us through defense costs, diversion of management time, and related publicity.

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 *qui 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, including its palliative care offerings, 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.

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, 2013, the Company's accrual for its estimated liability for potential environmental cleanup and related costs arising from the 1991 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 2014 and 2015 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, 2013, Chemed Corporation had a total of 13,952 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, 255 East Fifth Street, Suite 2600, Cincinnati, Ohio 45202 or by calling 800-2CHEMED or 800-224-3633. The Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K by posting such information on its website.

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.

<u>GENERAL</u>

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

We have debt which is due in May 2014 that is convertible into shares based on the Company's stock price. This could significantly dilute the ownership percentage of current stockholders.

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 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. 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.

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; 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. The sewer, drain and pipe cleaning, excavation 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 FTC regarding the offering or sale of franchises. These rules and regulations 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.

Roto-Rooter’s 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.

Roto-Rooter’s future success significantly depends upon the continued service of its senior management personnel. The loss of one or more of Roto-Rooter’s key senior management personnel or its inability to hire and retain new skilled employees could negatively impact its ability to maintain or increase customer calls and jobs, a key aspect of its growth strategy, and could adversely affect its future operating results.

Competition for skilled employees, particularly licensed plumbers, is intense, and the process of locating and recruiting skilled employees with the combination of qualifications and attributes required to adequately perform plumbing duties can be difficult and lengthy. We cannot assure you that Roto-Rooter will be successful in attracting, retaining or training highly skilled personnel. Roto-Rooter’s business could be disrupted and its growth and profitability negatively impacted if it is unable to attract and retain skilled employees.

Cybersecurity

In the normal course of business, our information technology systems hold sensitive customer information including names, addresses and partial credit card information. Additionally, we utilize those same systems to perform our day-to-day activities, such as receiving customer calls, dispatching technicians to jobs and maintaining an accurate record of all transactions. We have not experienced any known attacks on our information technology systems that compromised customer data or the Company’s proprietary data. We maintain our information technology systems with safeguard protection against cyber-attacks including passive intrusion protection, firewalls and virus detection software. Additionally, on a quarterly basis, we test our information technology systems using cyber-attack software and methods to learn how a successful attack may be made. We remedy any issues encountered during these tests. However, these safeguards do not ensure that a significant cyber-attack could not occur. A successful attack on our information technology systems could have significant consequences to the business including liability for compromised customer information and business interruption.

Roto-Rooter’s success is highly dependent on its brand reputation

Roto-Rooter's national reputation and brand image for performing necessary, high quality services in a timely manner is critical to Roto-Rooter's continued success. Adverse publicity, litigation or on-line negative reviews focused on the Roto-Rooter brand could negatively impact Roto-Rooter's national reputation resulting in decreased future demand for Roto-Rooter branded services. Roto-Rooter maintains a reputation management risk program however, a loss of brand reputation at Roto-Rooter could adversely affect consumer willingness to use our service and thus, adversely affect our future operating performance.

<u>VITAS</u>

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 20% of VITAS' days of care are provided to patients who 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
- Conduct of operations, including fraud and abuse, anti-kickback prohibitions, self-referral prohibitions and false claims;
- 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 and litigation pending against VITAS under Other Healthcare Regulations, above and Legal Proceedings, below.

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. 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.

Approximately 40% of VITAS' workforce is licensed 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 organizations 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, 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.

Cybersecurity

In the normal course of business, our information technology systems hold sensitive patient information including patient demographic data, eligibility for various medical plans including Medicare and Medicaid and protected health information. Additionally, we utilize those same systems to perform our day-to-day activities, such as receiving referrals, assigning medical teams to patients, documenting medical information and maintaining an accurate record of all transactions. We have not experienced any known attacks on our information technology systems that have compromised patient data or the Company's proprietary data. We maintain our information technology systems with safeguard protection against cyber-attacks including passive intrusion protection, firewalls and virus detection software. As discussed previously, we are subject to and comply with HIPPA regulations. However, these safeguards do not ensure that a significant cyber-attack could not occur. A successful attack on our information technology systems could have significant consequences to the business including liability for compromised patient information and business interruption.

VITAS' success is highly dependent on its brand reputation

VITAS' reputation for performing quality routine and high acuity patient hospice care within the regulations mandated by Medicare, Medicaid and commercial payors is critical to our success. Failure to provide quality patient care within the regulations mandated by our third-party payors, or the perception of inappropriate care resulting in adverse publicity, litigation or a campaign of negative on-line reviews are some of the factors that could negatively impact VITAS' national reputation. VITAS maintains a reputation management risk program however, a loss of brand reputation at VITAS could adversely affect referral sources' willingness to refer our service and thus, adversely affect our future operating performance.

VITAS' headquarters and a significant portion of its operations are in south Florida

The occurrence of a natural disaster in any region that VITAS has significant operations could have a negative impact on the business. VITAS' headquarters are located in Miami, Florida. In addition, two of our largest programs are in south Florida. The location of our headquarters and these large programs increases our exposure to hurricanes. A major hurricane in south Florida could impede our ability to bill for our services, operate our businesses and serve our patients' in the affected area. VITAS maintains a disaster recovery program to mitigate this risk however, natural disasters could have an adverse affect on our future operating performance.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company's corporate offices and the headquarters for Roto-Rooter are located in Cincinnati, Ohio. Roto-Rooter has manufacturing and distribution center facilities in West Des Moines, Iowa and has 109 leased and owned office and service facilities in 30 states. VITAS, headquartered in Miami, operates 51 programs from 154 leased facilities and 37 inpatient units in 18 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 nine 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

In February 2010, Chemed and Roto-Rooter were named as defendants in a lawsuit filed in the United States District Court for the Eastern District of New York, *Anthony Morangelli, et al., v. Chemed Corp. and Roto-Rooter Services Co.,* No. 10-CV-00876 (BMC). The named plaintiffs, current and former technicians employed by Roto-Rooter who were paid on a commission basis, asserted against Chemed and Roto-Rooter claims for violation of the Fair Labor Standards Act ("FLSA") and claims for violations of the labor laws of multiple states. In June 2013 the parties reached an agreement to settle the case for $14.3 million plus applicable payroll taxes ($9.0 million after tax). As such, $14.8 million is recorded as other operating expense in the year ended December 31, 2013 Statement of Income and is included in accrued legal at December 31, 2013.

VITAS is party to a class action lawsuit filed in the Superior Court of California, Los Angeles County in September 2006 by Bernadette Santos, Keith Knoche and Joyce White, *Bernadette Santos, et al. v. VITAS Healthcare Corporation of California*, BC359356. This case alleges failure to pay overtime and failure to provide meal and rest periods to a purported class of California admissions nurses, chaplains and sales representatives. The case seeks payment of penalties, interest and Plaintiffs' attorney fees. In December 2009, the trial court denied Plaintiffs' motion for class certification. In July 2011, the Court of Appeals affirmed denial of class certification on the travel time, meal and rest period claims, and reversed the trial court's denial on the off-the-clock and sales representation exemption claims. Plaintiffs filed an appeal of this decision. In September 2012, in response to an order of reconsideration, the Court of Appeals reiterated its previous rulings. In March 2013, the Court granted summary judgment dismissing the sales representatives' claims as they are exempt employees. In October 2013 we reached agreement to settle the case for $10.3 million plus applicable payroll taxes ($6.5 million aftertax). As such, $10.5 million is recorded as other operating expense in the year ended December 31, 2013 Statement of Income. This settlement was paid in 2013.

On January 12, 2012, a putative class action lawsuit was filed in the U.S. District Court for the Southern District of Ohio against the Company, Kevin McNamara, David Williams, and Timothy O'Toole, *In re Chemed Corp. Securities Litigation*, Civil Action No. 1:12-cv-28 (S.D. Ohio). On June 18, 2012, an amended complaint was filed alleging violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 against all Defendants, and violation of Section 20(a) of the Securities Exchange Act of 1934 against Messrs. McNamara, Williams, and O'Toole. The suit's allegations concern the VITAS hospice segment of the Company's business. Plaintiffs seek, on behalf of a putative class of purchasers of Chemed Capital Stock, compensatory damages in an unspecified amount and attorneys' fees and expenses, arising from Defendants' alleged failure to disclose an alleged fraudulent scheme at VITAS to enroll ineligible hospice patients and to fraudulently obtain payments from the federal government. Defendants filed motions to dismiss the amended complaint on August 17, 2012, which were pending when the parties reached an agreement to settle the action. On June 7, 2013, following the filing of U.S. v. VITAS, discussed below, Plaintiffs filed a motion for leave to file a second amended complaint. Defendants opposed this motion. On September 16, 2013 Plaintiffs, executed a Settlement Term Sheet with Defendants, reaching an agreement in principle to settle this case subject to court approval. On February 6, 2014, Plaintiffs, on behalf of a putative class of purchasers of Chemed Capital Stock between February 15, 2010 and May 2, 2013, inclusive, executed a stipulation of settlement with Defendants, agreeing to settle this case in full and with prejudice, and to provide Defendants with full releases of all claims that are or could have been asserted by Plaintiffs in exchange for payment of $6.0 million by our insurer into a settlement fund for the benefit of the putative settlement class ("Settlement"). The Settlement has been recorded as an accrual and offsetting prepaid in the accompanying Balance Sheet. This Settlement is subject to Court approval. Defendants agreed to enter into this Settlement in order to eliminate the burden, expense and distraction of further litigation.

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

Also in June 2011, the U.S. Attorney provided the Company with a partially unsealed *qui tam* complaint filed under seal in the U.S. District Court for the Northern District of Illinois, *United States, et al. ex rel. Spottiswood v. Chemed Corp.*, 1:07-cv-4566 ("*Spottiswood*"). In April 2012, the complaint was unsealed. The U.S. Attorney and Attorney General for the State of Illinois filed notices in April and May 2012, respectively, stating that they had decided not to intervene in the case at that time but indicating that they continue to investigate the allegations. Plaintiff filed an amended complaint in November 2012. The complaint asserts violations of the federal False Claims Act and the Illinois Whistleblower Reward and Protection Act based on allegations that VITAS fraudulently billed Medicare and Medicaid for providing unwarranted continuous care services. The suit was brought by Laura Spottiswood, a former part-time pool registered nurse at VITAS, against Chemed, VITAS, and a VITAS affiliate. The complaint was served on the defendants on April 12, 2013. On May 29 and June 4, 2013, respectively, the Court granted the government's motion to partially intervene in *Spottiswood* and in *Urick* on the allegations that VITAS submitted or caused to be submitted false or fraudulent claims for continuous care and routine home care on behalf of certain ineligible Medicare beneficiaries. The Court also transferred them to the U.S. District Court for the Western District of Missouri under docket Nos. 4:13-cv-505 and 4:13-cv-563, respectively.

On May 2, 2013, the government filed a False Claims Act complaint against the Company and certain of its hospice-related subsidiaries in the U.S. District Court for the Western District of Missouri, *United States v. VITAS Hospice Services, LLC, et al.*, No. 4:13-cv-00449-BCW (the "2013 Action"). Prior to that date, the Company received various subpoenas from the U.S. Department of Justice and OIG that have been previously disclosed. The 2013 Action alleges that, since at least 2002, VITAS, and since 2004, the Company, submitted or caused the submission of false claims to the Medicare program by (a) billing Medicare for continuous home care services when the patients were not eligible, the services were not provided, or the medical care was inappropriate, and (b) billing Medicare for patients who were not eligible for the Medicare hospice benefit because they did not have a life expectancy of six months or less if their illnesses ran their normal course. This complaint seeks treble damages, statutory penalties, and the costs of the action, plus interest. On August 1, 2013, the government filed its First Amended Complaint in the 2013 Action. The First Amended Complaint changed and supplemented some of the allegations, but did not otherwise expand the causes of action or the nature of the relief sought against VITAS. The defendants filed a motion to dismiss on September 24, 2013.

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

On September 25, 2013, the Court granted a joint motion by the government, the relators, and VITAS to consolidate the *Spottiswood*, *Urick*, and *Gonzales* complaints with the 2013 Action. As a result, the First Amended Complaint will govern the consolidated claims brought by the United States and the relators for all purposes. The relators and VITAS have stipulated that certain non-intervened claims will not be pursued by the relators.

VITAS has also received document subpoenas in related state matters. In February 2010, VITAS received a civil investigative demand ("CID") from the Texas Attorney General seeking documents from January 1, 2002 through the date of the CID, and interrogatory responses in connection with an investigation of possible fraudulent submission of Medicaid claims for non-qualifying patients and fraudulent shifting of costs from VITAS to the State of Texas and the United States. The CID requested similar information sought by prior Department of Justice subpoenas, including policy and procedure manuals and information concerning Medicare and Medicaid billing, patient statistics and sales and marketing practices, together with information concerning record-keeping and retention practices, and medical records concerning 117 patients. In September 2010, VITAS received a second CID from the Texas Attorney General seeking additional documents concerning business plans and results, revocation forms for certain patients, and electronic documents of 10 current and former employees. In July 2012, VITAS received an investigative subpoena from the Florida Attorney General seeking documents previously produced in the course of prior government investigations as well as, for the period January 1, 2007 through the date of production, billing records and procedures; information concerning business results, plans, and strategies; documents concerning patient eligibility for hospice care; and certain information concerning employees and their compensation.

In November 2013, two shareholder derivative lawsuits were filed against the Company's current and former directors, as well as certain of its officers both of which are covered by the company's commercial insurance. On November 6, 2013, KBC Asset Management NV filed suit in the United States Distrct Court for the District of Delaware, *KBC Asset Management NV, derivatively on behalf of Chemed Corp. v. McNamara, et al.*, No. 13 Civ. 1854 (LPS) (D. Del.). It sued Kevin McNamara, Joel Gemunder, Patrick Grace, Thomas Hutton, Walter Krebs, Andrea Lindell, Thomas Rice, Donald Saunders, Arthur Tucker, Jr., George Walsh III, Frank Wood, Timothy O'Toole, David Williams and Ernest Mrozek, together with the Company as nominal defendant. Plaintiff alleges that since at least 2004, Chemed, through VITAS, has submitted or caused the submission of false claims to Medicare. The suit alleges a claim for breach of fiduciary duty against the individual defendants, and seeks (a) a declaration that the individual defendants breached their fiduciary duties to the Company; (b) an order requiring those defendants to pay compensatory damages, restitution and exemplary damages, in unspecified amounts, to the Company; (c) an order directing the Company to implement new policies and procedures; and (d) costs and disbursements incurred in bringing the action, including attorneys' fees.

On November 14, 2013, Mildred A. North filed suit in the United States District Court for the Southern District of Ohio, *North, derivatively on behalf of Chemed Corp. v. Kevin McNamara, el al.*, No. 13 Civ. 833 (MDB) (S.D. Ohio). She sued Kevin McNamara, David Williams, Timothy O'Toole, Joel Gemunder, Patrick Grace, Walter Krebs, Andrea Lindell, Thomas Rice, Donald Saunders, George Walsh III, Frank Wood and Thomas Hutton, together with the Company as nominal defendant. Plaintiff alleges that, between February 2010 and the present, the individual defendants breached their fiduciary duties as officers and directors of Chemed by, among other things, (a) allegedly causing VITAS to submit improper and ineligible claims to Medicare and Medicaid; and (b) allegedly misrepresenting the state of Chemed's internal controls. The suit alleges claims for breach of fiduciary duty, abuse of control and gross mismanagement against the individual defendants. The complaint also alleges unjust enrichment and insider trading against Messrs. McNamara, Williams and O'Toole. Plaintiff seeks (a) a declaration that the individual defendants breached their fiduciary duties to the Company; (b) an order requiring those defendants to pay compensatory damages, restitution and exemplary damages, in unspecified amounts, to the Company; (c) an order directing the Company to implement new policies and procedures; and (d) costs and disbursements incurred in bringing the action, including attorneys' fees.

On December 20, 2013, Plaintiff in the *North* action filed a motion before the Judicial Panel on Multidistrict Litigation seeking centralized treatment of her action and the *KBC* action in the U.S. District Court for the Southern District of Ohio. Defendants in both cases, as well as with Plaintiff KBC, opposed that motion, consistent with Chemed's By-law 8.07, which requires all derivative suits brought in Chemed's name to proceed in federal or state court in Delaware. The MDL Panel has yet to rule on that motion. On January 29, 2014 Defendants filed motions to transfer *North* to Delaware under 28 U.S.C. § 1404 and to stay the case until after resolution of that motion and the MDL motion.

The Company intends to defend vigorously against the allegations in each of the above lawsuits. The Company had a net recovery for these OIG investigations, due to a one-time insurance reimbursement of $1.0 million for certain legal costs, for the ended December 31, 2013. The net costs to comply with these OIG investigations were $2.1 million, $1.2 million and $1.2 million for the years ending December 31, 2013, 2012 and 2011, respectively. Regardless of the outcome of any of the preceding matters, responding to the subpoenas and dealing with the various regulatory agencies and opposing parties can adversely affect us through defense costs, potential payments, diversion of management time, and related publicity. Although the Company intends to defend them vigorously, there can be no assurance that those suits will not have a material adverse effect on the Company.

See also the OIG matters pending against VITAS under Other Healthcare Regulations, above.

Item 4. Mine Safety Disclosures

None

Executive Officers of the Company

Name	Age	Office	First Elected
Kevin J. McNamara	60	President and Chief Executive Officer	August 2, 1994 (1)
Timothy S. O'Toole	58	Executive Vice President	May 18, 1992 (2)
Spencer S. Lee	58	Executive Vice President	May 15, 2000 (3)
David P. Williams	53	Executive Vice President and Chief Financial Officer	March 5, 2004 (4)
Arthur V. Tucker, Jr.	64	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 19, 2014.

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 2012 and 2013 are set forth below.

	Closing		Dividends Paid
	High	Low	Per Share
2012			
First Quarter	$ 63.87	$ 51.18	$ 0.16
Second Quarter	64.30	54.78	0.16
Third Quarter	71.59	59.45	0.18
Fourth Quarter	70.92	62.70	0.18
2013			
First Quarter	$ 79.98	70.31	$ 0.18
Second Quarter	81.79	63.90	0.18
Third Quarter	75.88	66.04	0.20
Fourth Quarter	79.93	66.14	0.20

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 14, 2014, there were approximately 2,053 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 2013, 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
February 2011 Program				
January 1 through January 31, 2013	-	$ -	3,535,541	$ 14,739,197
February 1 through February 28, 2013	-	-	3,535,541	114,739,197
March 1 through March 31, 2013	-	-	3,535,541	$ 114,739,197
First Quarter Total	-	$ -		
April 1 through April 30, 2013	-	$ -	3,535,541	$ 114,739,197
May 31 through May 31, 2013	280,701	65.72	3,816,242	96,291,009
June 1 through June 30, 2013	-	-	3,816,242	$ 96,291,009
Second Quarter Total	280,701	$ 65.72		
July 1 through July 31, 2013	219,830	$ 70.66	4,036,072	$ 80,758,769
August 1 through August 31, 2013	49,522	71.02	4,085,594	77,241,690
September 1 through September 30, 2013	763,402	68.26	4,848,996	$ 25,128,231
Third Quarter Total	1,032,754	$ 68.91		
October 1 through October 31, 2013	-	$ -	4,848,996	$ 25,128,231
November 1 through November 30, 2013	-	-	4,848,996	25,128,231
December 1 through December 31, 2013	42,889	76.95	4,891,885	$ 21,828,041
Fourth Quarter Total	42,889	$ 76.95		

On February 21, 2014, our Board of Directors authorized an additional $100 million under February 2011 Repurchase Program.

As of December 31, 2013, 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

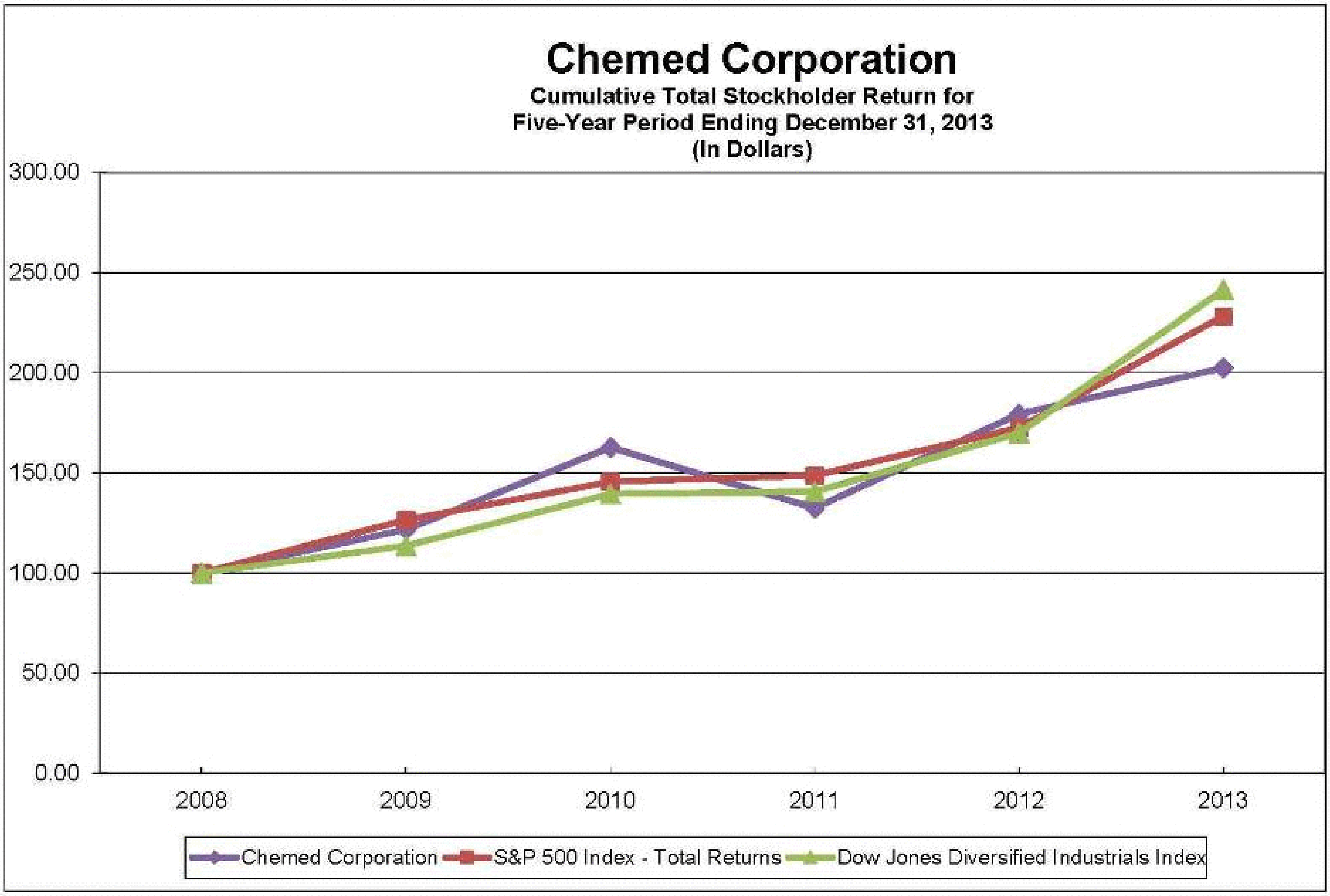
Plan Category	Number of securities to be issued upon exercise of outstanding warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column)
Equity compensation plans approved by stockholders (1)	2,198,710	$ 60.73	492,131
Equity compensation plans not approved by stockholders (2)	3,500	45.14	-
Total	2,202,210	$ 60.71	492,131

(1) Amount includes 16,149 shares allocated to certain employees which vest upon attainment of specified earnings per share targets for the three-year period ending December 31, 2015 and 16,149 shares which vest upon attainment of specified total shareholder return targets for the three-year period ending December 31, 2015.

(2) 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, 2008, to December 31, 2013, assuming dividend reinvestment, and (B) the difference between the Company's share price at December 31, 2008 and December 31, 2013; by (ii) the share price at December 31, 2008) with the cumulative total return, assuming reinvestment of dividends, of the (1) S&P 500 Stock Index and (2) Dow Jones Industrial Diversified Index.



December 31,	2008	2009	2010	2011	2012	2013
Chemed Corporation	**100.00**	**121.62**	**162.53**	**132.36**	**179.27**	**202.35**
S&P 500	**100.00**	**126.46**	**145.51**	**148.59**	**172.37**	**228.19**
Dow Jones Diversified Industrials	**100.00**	**113.50**	**139.44**	**140.56**	**169.80**	**241.34**

Item 6. Selected Financial Data

The information called for by this Item for the five years ended December 31, 2013 is set forth on page 84 of the 2013 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 88 through 104 of the 2013 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, 2013 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, 2013 is approximately $193.0 million versus a carrying value of $183.6 million.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 27, 2014, appearing on pages 51 through 81 of the 2013 Annual Report to Stockholders, along with the Supplementary Data (Unaudited Summary of Quarterly Results) appearing on pages 82-83, 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 51 and 52 of the Company's 2013 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, 2013 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 2014 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 2014 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 2014 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 2014 Proxy Statement, which is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Audit Fees

PricewaterhouseCoopers LLP billed the Company $1,677,000 for 2012 and $1,890,000 for 2013. 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 $128,492 and $127,800 for 2012 and 2013, respectively, for audit-related services. These services were related primarily to the audit of one of VITAS' Florida subsidiaries.

Tax Fees

No such services were rendered in 2012 or 2013.

All Other Fees

No such other services were rendered in 2012 or 2013.

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, as amended August 2, 2013.*
10.1	1999 Long-Term Employee Incentive Plan as amended through May 20, 2002.*,**
10.2	2002 Executive Long-Term Incentive Plan, as amended May 18, 2004.*,**
10.3	2004 Stock Incentive Plan.*,**
10.4	2006 Stock Incentive Plan, as amended August 11, 2006.*,**
10.5	2010 Stock Incentive Plan.*,**
10.6	Repurchase Agreement dated May 8, 2007 by and among Chemed Corporation, J.P. Morgan Securities Inc. and Citigroup Global Markets, Inc.*
10.7	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.*
10.8	Employment Agreement with David P. Williams dated December 1, 2006.*,**
10.9	First Amendment to Employment Agreement with David P. Williams dated July 9, 2009.*,**
10.10	Employment Agreement with Timothy S. O'Toole dated May 6, 2007.*,**
10.11	First Amendment to Employment Agreement with Timothy S. O'Toole dated July 9, 2009.*,**
10.12	Employment Agreement with Kevin J. McNamara dated May 3, 2008.*,**
10.13	First Amendment to Employment Agreement with Kevin J. McNamara dated July 9, 2009.*,**
10.14	Registration Rights Agreement, dated May 14, 2007 by and among Chemed Corporation, J.P. Morgan Securities, Inc. and Citigroup Global Markets Inc.*
10.15	Confirmation of Convertible Note Hedge, dated May 8, 2007 between Chemed Corporation and J.P. Morgan Chase Bank, NA.*
10.16	Confirmation of Convertible Note Hedge, dated May 8, 2007 between Chemed Corporation and Citibank, NA.*
10.17	Form of Convertible Note Warrant Transaction, dated May 8, 2007 between Chemed Corporation and Citibank NA.*
10.18	Form of Convertible Note Warrant Transaction, dated May 8, 2007 between Chemed Corporation and J.P. Morgan Chase Bank, NA.*
10.19	Excess Benefits Plan, as restated and amended, effective June 1, 2001.*,**

10.20	Amendment No. 1 to Excess Benefits Plan, effective July 1, 2001.*,**
10.21	Amendment No. 2 to Excess Benefits Plan, effective November 7, 2003.*,**
10.22	Non-Employee Directors' Deferred Compensation Plan.*,**
10.23	Chemed/Roto-Rooter Savings & Retirement Plan, effective January 1, 1999.*,**
10.24	First Amendment to Chemed/Roto-Rooter Savings & Retirement Plan, effective September 6, 2000.*,**
10.25	Second Amendment to Chemed/Roto-Rooter Savings & Retirement Plan, effective January 1, 2001.*,**
10.26	Third Amendment to Chemed/Roto-Rooter Savings & Retirement Plan, effective December 12, 2001.*,**
10.27	Directors Emeriti Plan.*,**
10.28	Chemed Corporation Change in Control Severance Plan, as amended July 9, 2009.*,**
10.29	Chemed Corporation Senior Executive Severance Policy, as amended July 9, 2009.*,**
10.30	Roto-Rooter Deferred Compensation Plan No. 1, as amended January 1, 1998.*,**
10.31	Roto-Rooter Deferred Compensation Plan No. 2.*,**
10.32	Form of Performance-Based Restricted Stock Units Award**
10.33	Form of Restricted Stock Award.*,**
10.34	Form of Stock Option Grant, pre-2013.*,**
10.35	Form of Stock Option Grant, 2013.**
10.36	Amended and Restated Credit Agreement - $350,000,000 Revolving Credit Facility, originally dated May 2, 2007, by and among JP Morgan Chase Bank, NA and Chemed Corporation as of March 1, 2011, exhibits and schedules thereto.
10.37	Second Amended and Restated Credit Agreement by and among Chemed Corporation, JP Morgan Chase Bank NA, and other lenders as of January 18, 2013, exhibits and schedules thereto.
12	Computation of Ratio of Earnings to Fixed Charges.
13	2013 Annual Report to Stockholders.
14	Policies on Business Ethics of Chemed Corporation, as revised 10/14/13.
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.DEF	XBRL Taxonomy Extension Definition Linkbase*
101.LAB	XBRL Taxonomy Extension Label Linkbase*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase*

*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 27, 2014

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)	February 27, 2014
/s/ David P. Williams David P. Williams	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 27, 2014
/s/ Arthur V. Tucker, Jr. Arthur V. Tucker, Jr.	Vice President and Controller (Principal Accounting Officer)	February 27, 2014
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	February 27, 2014

* 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 27, 2014 — /s/ Naomi C. Dallob

Date — Naomi C. Dallob (Attorney-in-Fact)

CHEMED CORPORATION AND SUBSIDIARY COMPANIES

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE
2011, 2012 AND 2013

* Indicates page numbers in Chemed Corporation 2013 Annual Report to Stockholders

The consolidated financial statements of Chemed Corporation listed above, appearing in the 2013 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 and Stockholders of Chemed Corporation:

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated February 27, 2014 appearing in the 2013 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 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 27, 2014

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

		ADDITIONS			
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	(CHARGED) CREDITED TO COSTS AND EXPENSES	(CHARGED) CREDITED TO OTHER ACCOUNTS	DEDUCTIONS (a)	BALANCE AT END OF PERIOD
Allowances for doubtful accounts (b)					
For the year 2013	$ (10,892)	$ (10,690)	$ (1,318)	$ 10,310	$ (12,590)
For the year 2012	$ (11,524)	$ (9,233)	$ (1,326)	$ 11,191	$ (10,892)
For the year 2011	$ (13,332)	$ (8,686)	$ (786)	$ 11,280	$ (11,524)
Allowances for doubtful accounts - notes receivable (c)					
For the year 2013	$ (132)	$ (217)	$ (29)	$ -	$ (378)
For the year 2012	$ (305)	$ 122	$ 51	$ -	$ (132)
For the year 2011	$ (368)	$ 123	$ (60)	$ -	$ (305)

(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.

INDEX TO EXHIBITS

Exhibit Number		File No. and Filing Date	Page Number or Incorporation by Reference 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 August 2, 2013	Form 8-K 8/5/13	3.1
10.1	1999 Long Term Employee Incentive Plan as amended through May 20, 2002	Form 10-K 3/28/03, **	10.16
10.2	2002 Executive Long-Term Incentive Plan, as amended May 18, 2004	Form 10-Q 8/19/04, **	10.16
10.3	2004 Stock Incentive Plan	Proxy Statement 3/25/04, **	A
10.4	2006 Stock Incentive Plan, as amended August 11, 2006	Form 10-Q 8/14/06, **	10.1
10.5	2010 Stock Incentive Plan	Form 8-K 5/18/10, **	99.1
10.6	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
10.7	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
10.8	Employment Agreement with David P. Williams dated December 1, 2006.	Form 8-K 12/1/06, **	10.01

10.9	First Amendment to Employment Agreement with David P. Williams dated July 9, 2009.	Form 10-Q 10/30/09, **	10.2
10.10	Employment Agreement with Timothy S. O'Toole dated May 6, 2007.	Form 8-K 5/7/07, **	10.02
10.11	First Amendment to Employment Agreement with Timothy S. O'Toole dated July 9, 2009.	Form 10-Q 10/30/09, **	10.3
10.12	Employment Agreement with Kevin J. McNamara dated May 3, 2008.	Form 8-K 5/6/08, **	10.01
10.13	First Amendment to Employment Agreement with Kevin J. McNamara dated July 9, 2009.	Form 10-Q 10/30/09, **	10.1
10.14	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
10.15	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
10.16	Confirmation of Convertible Note Hedge, dated May 8, 2007 between Chemed Corporation and Citibank, NA.	Form 8-K 5/17/07	10.2
10.17	Form of Convertible Note Warrant Transaction, dated May 8, 2007 between Chemed Corporation and Citibank, NA.	Form 8-K 5/17/07	10.4
10.18	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
10.19	Excess Benefits Plan, as restated and amended, effective June 1, 2001	Form 10-K 3/12/04, **	10.24
10.20	Amendment No. 1 to Excess Benefits Plan, effective July 1, 2002	Form 10-K 3/12/04, **	10.25
10.21	Amendment No. 2 to Excess Benefits Plan, effective November 7, 2003	Form 10-K 3/12/04, **	10.26
10.22	Non-Employee Directors' Deferred Compensation Plan	Form 10-K 3/24/88, **	10.10

10.23	Chemed/Roto-Rooter Savings & Retirement Plan, effective January 1, 1999	Form 10-K 3/25/99, **	10.25
10.24	First Amendment to Chemed/ Roto-Rooter Savings & Retirement Plan effective September 6, 2000	Form 10-K 3/28/02, **	10.22
10.25	Second Amendment to Chemed/ Roto-Rooter Savings & Retirement Plan effective January 1, 2001	Form 10-K 3/28/02, **	10.23
10.26	Third Amendment to Chemed/ Roto-Rooter Savings & Retirement Plan effective December 12, 2001	Form 10-K 3/28/02, **	10.24
10.27	Directors Emeriti Plan	Form 10-Q 5/12/88, **	10.11
10.28	Change in Control Severance Plan as amended July 9, 2009.	Form 10-Q 10/30/09, **	10.5
10.29	Senior Executive Severance Policy as amended July 9, 2009.	Form 10-Q 10/30/09, **	10.4
10.30	Roto-Rooter Deferred Compensation Plan No. 1, as amended January 1, 1998	Form 10-K 3/28/01, **	10.37
10.31	Roto-Rooter Deferred Compensation Plan No. 2	Form 10-K 3/28/01, **	10.38
10.32	Form of Performance Based Restricted Stock Unit Award	*	
10.33	Form of Restricted Stock Award	Form 10-K 3/28/05, **	10.50
10.34	Form of Stock Option Grant Pre-2013	Form 10-K	10.51
10.35	Form of Stock Option Grant - 2013	*	
10.36	Amended and Restated Credit Agreement - $350,000,000 Revolving Credit Facility, originally dated May 2, 2007, by and among JP Morgan Chase Bank, N.A. and Chemed Corporation as of March 1, 2011, Exhibits and schedules thereto.	Form 10-Q 4/29/11	10.1
10.37	Second Amended and Restated Credit Agreement by and among Chemed Corporation, JP Morgan Chase Bank NA, and other lenders As of January 18, 2013 exhibits and schedules thereto.	Form 8-K 1/22/13	10.1
12	Computation of Ratio of Earnings to Fixed Charges	*	

13	2013 Annual Report to Stockholders	*
14	Policies on Business Ethics of Chemed Corporation, as revised 10/14/13.	*
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.DEF	XBRL Taxonomy Extension Definition Linkbase	*
101.LAB	XBRL Taxonomy Extension Label Linkbase	*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	*

* Filed herewith.

** Management contract or compensatory plan or arrangement.

Exhibit 10.32
Chemed Corporation
Form of Performance-Based Restricted Stock Unit Award

November 8, 2013

Name
Address

Dear __________________:

I am pleased to inform you that the Compensation/Incentive Committee (the "Committee") of Chemed Corporation (the "Company"), has granted you a target number of ________ share units, which are the equivalent of one share of the Company's Capital Stock ("Capital Stock"), par value $1.00 per share ("Performance Share Units"), under the 2010 Stock Incentive Plan (the "Plan"). Subject to the terms and conditions of this Agreement and the Plan and depending on the Company's performance, as set forth below, you may earn between zero percent (0%) to two hundred percent (200%) of the target number of Performance Share Units. Capitalized terms used in this Agreement without definition shall have the meanings set forth in the Plan, unless otherwise stated herein.

1. The Performance Share Units (and any additional Dividend Share Units with respect to such Performance Share Units, as set forth in Section 3) shall vest and be earned based on the achievement of the three-year compound average growth rate in the Company's adjusted earnings per share ("3-Year Adjusted EPS CAGR") and the Company's three-year total shareholder return percentile ranking as compared to the Peer Companies, as defined below ("3-Year TSR Percentile") for the performance period beginning January 1, 2013 and ending December 31, 2015 (the "Performance Period") as set forth below (collectively, the "Performance Goals") and your continued employment with the Company or one of its Subsidiaries (as defined below) through the date on which the Committee determines the actual number of shares of Capital Stock to be delivered to you (the "Settlement Date"). Fifty percent (50%) of your Performance Share Unit award will be determined by 3-Year Adjusted EPS CAGR and, fifty percent (50%) will be determined by 3-Year TSR Percentile.

2. No later than March 15, 2016, the Committee shall determine the extent to which each Performance Goal has been achieved and shall determine the number of Performance Share Units, if any, that has been earned by you. The number of Performance Share Units to be vested and earned shall be based on the degree of achievement of the Performance Goals, in accordance with the following tables.

	3-Year Adjusted EPS CAGR	Percentage of Target Shares
Maximum	15%	100.0%
Maximum	15%	100.0%
Target	7%	50.0%
Minimum	3%	0.0%

	3-Year TSR Percentile	Percentage of Target Shares
Maximum	Greater than 90th	100.0%
	75th	75.0%
	60th	62.5%
Target	50th	50.0%
	40th	37.5%
	25th	25.0%
Minimum	Less than 25th	0.0%

For performance levels between those appearing in the above tables, the number of Performance Share Units to be vested and earned shall be interpolated between the next closest performance levels appearing in the tables. The Committee has the discretion to reduce (but not increase) some or all of the number of shares of Capital Stock that would otherwise be earned as a result of the satisfaction of the Performance Goals. In making this determination, the Committee may take into account any such factor or factors it determines are appropriate.

3-year Adjusted EPS CAGR is equal to the Company's fiscal year 2015 Adjusted EPS divided by the fiscal year 2012 Adjusted EPS raised to the 1/3 power, minus one (1), where Adjusted EPS means the Company's diluted earnings per share from continuing operations for a fiscal year, excluding non-cash stock option and interest expenses and other items not indicative of ongoing operations, as determined by the Committee.

3-Year TSR Percentile means the percentile ranking of the Company's 3-Year TSR as compared to the 3-Year TSR of each of the Peer Companies, where 3-Year TSR means, for the Company and each of the Peer Companies, a company's total shareholder return, which is equal to Closing Average Stock Price divided by the Opening Average Stock Price raised to the 1/3 power, minus one (1).

Closing Average Stock Price means the average of a company's closing stock price over the thirty (30) trading days ending on the last day of the Performance Period, or in the case of a Change in Control (as defined in the Chemed Corporation Change in Control Severance Plan, the "CIC Severance Plan"), ending on the date of the Change in Control or some earlier date, as determined by the Committee, where such price takes into account dividends paid on a company's stock during the Performance Period, assuming same day reinvestment of the dividends into shares of the company's stock at the closing stock price on the ex-dividend date.

Opening Average Stock Price means the average of a company's closing stock price over the thirty (30) trading days ending on the first day of the Performance Period.

Peer Companies means the list of companies appearing in Exhibit A of this Agreement. In the event of a merger, acquisition, or other similar business combination of a Peer Company during the Performance Period where the Peer Company is not the surviving entity or a Peer Company is taken private or is no longer publicly traded in the United States during the Performance Period, the company shall no longer be a Peer Company. In the event of a bankruptcy, liquidation, or dissolution of a Peer Company or a Peer Company otherwise ceases to conduct operations during the Performance Period, its 3-Year TSR shall be deemed to be -100%.

Any fractional shares resulting from the determination of the number of Performance Share Units to be earned and vested shall be rounded to the nearest whole number of shares of Capital Stock.

3. If the Company pays a cash dividend during the Performance Period, your number of target Performance Share Units, including any such previous Dividend Share Units (as defined below), will increase on the dividend payment date by a number of units equal to the per share cash dividend amount multiplied by such number of target Performance Share Units divided by the Company's closing stock price on the dividend payment date ("Dividend Share Units").

4. As long as you are employed by the Company or a Subsidiary and until the Settlement Date, you will not, except as otherwise specifically required or permitted by this Agreement, sell, exchange, transfer, pledge, hypothecate or otherwise dispose of any of the Performance Share Units or any interest therein.

5. If your employment with the Company or a Subsidiary shall terminate prior to the Settlement Date for any reason other than death, disability (as determined by the Committee), or retirement under a retirement plan of the Company or a Subsidiary, all Performance Share Units shall be forfeited by you upon such termination of employment. If your employment with the Company or a subsidiary shall terminate during the Performance Period by reason of death, disability (as determined by the Committee), or retirement under a retirement plan of the Company or a Subsidiary, you will vest and earn a pro-rated number of Performance Share Units on the Settlement Date based on the degree of achievement of the Performance Goals during the Performance Period, where the pro-ration shall be determined by multiplying such number of Performance Share Units by a fraction, the numerator of which is the number of completed months in the Performance Period during which you were employed by the Company and the denominator of which is thirty-six (36).

6. Any provision of this Agreement to the contrary, the Company may take such steps as it believes necessary or desirable to obtain sufficient funds from you to pay all taxes, if any, required by law to be withheld in respect of the Performance Share Units including, but not limited to, requiring payments to the Company by you or on your behalf and/or taking deductions from amounts payable by the Company to you or on your behalf.

7. As used in this Agreement, the term "Subsidiary" shall mean the Company's divisions and units, and all corporations or other forms of business association of which shares (or other ownership interests) having 50% or more of the voting power regularly entitled to vote for directors (or equivalent management) or regularly entitled to receive 50% or more of the dividends (or their equivalents) paid on the Capital Stock (or its equivalent) are owned or controlled, directly or indirectly, by the Company.

8. Each of the parties hereto agrees to execute and deliver all consents and other instruments and to take all other action deemed necessary or desirable by counsel for the Company to carry out each term of this Agreement. Each party recognizes that the other party has no adequate remedy at law for breach of this Agreement and recognizes consents and agrees that the other party shall be entitled to an injunction or decree of specific performance directed to the other party that the provisions of this Agreement be carried out.

9. (a) Any notice to the Company under or pursuant to this Agreement shall be deemed to have been given if and when delivered in person to the Secretary of the Compensation/Incentive Committee or if and when mailed by certified or registered mail to the Secretary of the Compensation/Incentive Committee at Suite 2600, 255 East Fifth Street, Cincinnati, Ohio 45202, or such other address as the Company may from time to time designate in writing by notice to you given pursuant to paragraph 9(b) hereof.

(b) Any notice to you under or pursuant to this Agreement shall be deemed to have been given if and when delivered to you in person or if and when mailed by certified or registered mail to you at your address hereinabove given or such other address as you may from time to time designate in writing by notice to the Company given pursuant to paragraph 9(a) above.

10. Notwithstanding any remedy provided for in this Agreement, nothing in this Agreement shall preclude the Company from taking any other action or enforcing any other remedy available to the Company.

11. This Agreement has been executed pursuant to the Plan of the Company, and the Plan is hereby incorporated herein by reference.

12. The Company may cancel, forfeit or recoup any rights or benefits of, or payments to, you hereunder, including but not limited to any Capital Stock issued by the Company or the proceeds from the sale of any such Capital Stock, under any current or future compensation recovery policy that it may establish and maintain from time to time to meet listing requirements that may be imposed in connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act or otherwise.

13. This Agreement shall be binding upon and inure to the benefit of (a) the Company, its successors and assigns, and (b) you, and to the extent applicable, any beneficiary in the event of your death.

14. This Agreement has been executed, and it and any shares of Capital Stock that are to be delivered, in accordance with the laws of the State of Ohio, the state in which the Company maintains its principal executive offices, and the validity, interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of Ohio.

15. Upon the occurrence of a Change in Control (as defined in the CIC Severance Plan) during the Performance Period, the number of Performance Share Units to be vested and earned shall be based on the greater of (i) the degree of achievement of the Performance Goals as of the date of the Change in Control or some earlier date, as determined by the Committee, in accordance with the tables set forth in Section 2 of this Agreement; or (ii) the target number of Performance Share Units; provided, however, that the date on which these Performance Share Units shall become vested and earned will be January 1, 2016, subject to the terms of Section 5 of this Agreement where such date is to be considered the Settlement Date and your employment is with the surviving or successor entity; provided, however, that upon a termination of your employment (i) for reasons other than Cause; or (ii) for Good Reason (as defined in the CIC Severance Plan), the Performance Share Units shall become immediately vested and earned. Upon the Change in Control, the Company shall cause the surviving entity to issue replacement Performance Share Units ("Replacement Award"), which units shall be the equivalent of one share of common stock of the surviving entity. The number of Performance Share Units subject to such Replacement Award shall be determined based on the Company's stock price immediately before the Change in Control and the stock price of the surviving entity immediately after the Change in Control, such that the total value of the Performance Share Units immediately prior to the Change in Control is equal to the value of the Replacement Award immediately after the Change in Control. Such Replacement Award shall vest immediately prior to any subsequent transaction with respect to the surviving entity (or parent or subsidiary company thereof) of substantially similar character to a Change in Control. Notwithstanding anything to the contrary contained herein, if the surviving entity is no longer publicly traded on a United States exchange at the date of the Change in Control or the conversion into a Replacement Award is not properly executed, then such Performance Share Units shall become vested and earned immediately following the Change in Control. By accepting this grant and Agreement, you explicitly agree that, to the extent there is a conflict between the terms of this Section 15 and the CIC Severance Plan, the terms of this Section 15 shall control.

Very truly yours,

CHEMED CORPORATION

Executed and agreed to as of:	By: ______________________
	Naomi C. Dallob
	Vice President and Secretary
______________________	
Date: ______________________	Date: ______________________

EXHIBIT A: Peer Companies List

ABM Industries, Inc.
Acadia Healthcare Co., Inc.
Alliance Healthcare Services, Inc.
Almost Family, Inc.
Amedisys, Inc.
Bioscrip, Inc.
Brookdale Senior Living, Inc.
Capital Senior Living Corp.
Clean Harbors, Inc.
Comfort Systems USA, Inc.
Emeritus Corp.
Ensign Group, Inc.
Five Star Quality Care, Inc.
Gentiva Health Services, Inc.
Hanger, Inc.
Healthcare Services Group
Healthways, Inc.
LHC Group, Inc.
Mednax, Inc.
National Healthcare Corp.
Radnet, Inc.
Rollins, Inc.
Skilled Healthcare Group, Inc.
Team, Inc.
Tetra Tech, Inc.

<u>Exhibit 10.35</u>
Chemed Corporation
Form of Stock Option Grant - 2013

Date

Name
Address
City, State ZIP Code

Dear ,

In accordance with the 2010 Stock Incentive Plan (the “Plan”) of Chemed Corporation (the “Corporation”), you are hereby granted an option to purchase ______ shares of the capital stock, par value $1.00 per share, of the Corporation upon the following terms and conditions.

(1) The purchase price shall be $_______per share. Payment thereof shall be made in cash or, subject to the next sentence, by delivery to the Corporation of shares of capital stock of the Corporation which shall be valued at their Fair Market Value on the date of exercise, or in a combination of cash and such shares. Your right to pay the purchase price, in whole or in part, by delivery to the Corporation of shares of capital stock of the Corporation is expressly subject to temporary or permanent revocation or withdrawal at any time and from time to time by action of the Board of Directors of the Corporation without any requirement that advance notice of such revocation or withdrawal be given to you.

(2) Subject to the provisions of paragraphs (3) and (7), this option is exercisable in whole or in part at any time and from time to time as follows:

__________ Shares on or after [Date]

__________ Shares on or after [Date]

__________ Shares on or after [Date]

Once an installment becomes exercisable, it may be exercised at any time in whole or part until the expiration or termination of this option. Neither this option nor any right hereunder may be assigned or transferred by you, except by will, the laws of descent and distribution, pursuant to a qualified Domestic Relations order, or to a permitted transferee. It may be exercised during your life only by you or by a permitted transferee. Within fifteen (15) months after your death it may be exercised only by your estate, by a permitted transferee, or by a person who acquired the right to exercise the option by bequest or inheritance or by reason of your death. At the time of each exercise of this option, you or the person or persons exercising the option shall, if requested by the Corporation, give assurances, satisfactory to counsel to the Corporation, that the shares are being acquired for investment and not with a view to resale or distribution thereof and assurances in respect of such other matters as the Corporation may deem desirable to assure compliance with all applicable legal requirements.

(3) This option, to the extent that it shall not have been exercised, shall terminate when you cease to be an employee of the Corporation or a Subsidiary, unless you cease to be an employee because of your resignation with the consent of the Incentive Committee or because of your death, incapacity or retirement under a retirement plan of the Corporation or a Subsidiary. If you cease to be an employee because of such resignation, this option shall terminate upon the expiration of three months after you cease to be an employee, except as provided in the next sentence. If you cease to be an employee because of your death, incapacity or retirement under a retirement plan of the Corporation or a Subsidiary, or if you cease to be an employee because of your resignation with the consent of the Incentive Committee and die during the three-month period referred to in the preceding sentence, this option shall terminate fifteen (15) months after you ceased to be an employee. Where this option is exercised more than three months after termination of employment, as aforesaid, only those installments which shall have become exercisable prior to the expiration of three months after you ceased to be an employee, whether by death or otherwise, may be exercised. A leave of absence for military or governmental service or for other purposes shall not, if approved by the Incentive Committee be deemed a termination of employment within the meaning of this paragraph (3), provided, however, that this option may not be exercised during any such leave of absence. Notwithstanding the foregoing provisions of this paragraph (3) or any provision of the Plan, this option shall not be exercisable after the expiration of ten years from the date this option is granted.

(4) Upon the occurrence of a Change in Control (as defined in the Chemed Corporation Change in Control Severance Plan, the "CIC Severance Plan"), the Corporation shall cause the surviving entity to issue replacement options or stock appreciation rights in the surviving entity's common stock ("Replacement Award"). Such Replacement Award shall provide you with substantially the same economic value and benefits as provided by this option, including (i) an aggregate purchase price equal to the aggregate purchase price of this option, (ii) an aggregate spread determined immediately after such Change in Control equal to the aggregate spread of this option as determined immediately prior to such Change in Control, and (iii) a ratio of purchase price to the Fair Market Value of the shares subject to such Replacement Award, as determined immediately after the Change in Control, that is equal to the ratio of the purchase price of this option to the Fair Market Value of the Corporation's Capital Stock, as determined immediately prior to the Change in Control. Notwithstanding anything to the contrary contained herein, the substitution of the Replacement Award for this option shall be done in a manner that complies with Section 409A of the Code. To the extent such Replacement Award is not fully exercisable, it shall become exercisable on the date this option would otherwise have become exercisable under the terms of this option, subject to your continued employment with the surviving or successor entity through such date, provided, however, that such Replacement Award will become exercisable immediately if your employment is terminated by the surviving or successor entity without Cause or by you for Good Reason (as defined in the CIC Severance Plan). Such Replacement Award shall become exercisable immediately prior to any transaction with respect to the surviving or successor entity (or parent or subsidiary company thereof) of substantially similar character to a Change in Control. Upon such substitution, this option shall terminate and be of no further force and effect, provided however that if such Replacement Award is not issued for any reason or if the common stock of the surviving entity is not publicly traded on a United States exchange at the date of the Change in Control, then this option shall become exercisable in full upon the occurrence of the Change in Control. By accepting this grant, you explicitly agree that, to the extent there is a conflict between the terms of this Section 4 and the CIC Severance Plan or the Plan, the terms of this Section 4 shall apply.

(5) The number and class of shares or other securities covered by this option and the price to be paid therefore shall be subject to adjustment as, and under the circumstances, provided in Section 8 of the Plan.

(6) This option may be exercised only by serving written notice on the Secretary or Treasurer of the Corporation. The Corporation shall deliver the shares to you against payment; provided, however, no share shall be issued or transferred pursuant to this option unless and until all legal requirements applicable to the issuance or transfer of such shares have, in the opinion of the counsel to the Corporation, been complied with. Any Federal, state or local withholding taxes applicable to any compensation you may realize by reason of the exercise of the option or any subsequent disposition of the shares acquired on exercise shall, upon request, be remitted to the Corporation or the Subsidiary by which you are employed at the time of exercise or sale, as the case may be. You shall have the rights of a stockholder only as to stock actually delivered to you

(7) If you are or become an employee of a Subsidiary, the Corporation's obligations hereunder shall be contingent on the approval of the Plan and this option by the Subsidiary and the Subsidiary's agreement that (a) the Corporation may administer the Plan on its behalf, and (b) upon the exercise of the option, it will purchase from the Corporation the shares subject to the exercise at their Fair Market Value on the date of exercise, such shares to be then transferred by the Subsidiary to the holder of this option upon payment by the holder of the purchase price to the Subsidiary. Where appropriate, such approval and agreement of the Subsidiary shall be indicated by its signature below. The obligation of the Subsidiary so undertaken may be waived by the Corporation.

(8) The Plan is hereby incorporated by reference. Each term which is defined in the Plan and used in this option shall have the same meaning in this option as it has in the Plan. This option is granted subject to the Plan and, unless otherwise stated herein, shall be construed to conform to the Plan. The Corporation may cancel, forfeit or recoup any rights or benefits of, or payments to, you hereunder, including but not limited to any Capital Stock issued by the Corporation upon exercise of this option or the proceeds from the sale of any such Capital Stock, under any current or future compensation recovery policy that it may establish and maintain from time to time to meet listing requirements that may be imposed in connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act or otherwise.

Very truly yours,

CHEMED CORPORATION

By: ______________________________

Naomi C. Dallob
Chief Legal Officer

Receipt Acknowledged:

____
Employee

EXHIBIT 12

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

	2009	2010	2011	2012	2013
Pretax income from continuing operations	$ 120,620	$ 133,831	$ 140,556	$ 145,819	$ 123,829
Additions:					
Fixed charges	23,018	24,230	26,656	28,021	28,032
Amortization of capitalized interest	5	331	438	435	435
Deductions:					
Capitalized interest	(258)	-	-	-	-
Adjusted income	$ 143,385	$ 158,392	$ 167,650	$ 174,275	$ 152,296
Fixed Charges:					
Interest expense	$ 11,599	$ 11,959	$ 13,888	$ 14,723	$ 15,035
Capitalized interest	258	-	-	-	-
Interest component of rental expense (b)	11,161	12,271	12,768	13,298	12,997
Fixed charges	$ 23,018	$ 24,230	$ 26,656	$ 28,021	$ 28,032
Ratio of earnings to fixed charges (a)	6.2 x	6.5 x	6.3 x	6.2 x	5.4 x
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.

(b) The amounts shown above for interest component of rental expense for 2009, 2010, 2011 and 2012 increased by $12.5 million, $15.3 million, $16.3 and $16.0 million, respectively, from the prior year presentation due to certain in-patient unit leases being inadverently omitted. All years are present consistently. This omission did not affect our results of operations, financial position or cash flows.

EXHIBIT 13

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, 2013, based on the framework established in *Internal Control—Integrated Framework* (1992) 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, 2013, 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, 2013, as stated in their report which appears on page 52.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Chemed Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of Chemed Corporation and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, 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, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* 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.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Cincinnati, OH
February 27, 2014

CONSOLIDATED STATEMENT OF INCOME

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

For the Years Ended December 31,	**2013**	2012	2011
Service revenues and sales	**$ 1,413,329**	$ 1,430,043	$ 1,355,970
Cost of services provided and goods sold (excluding depreciation)	**1,008,808**	1,033,321	970,484
Selling, general and administrative expenses	**212,518**	208,656	202,260
Depreciation	**27,698**	26,009	25,247
Amortization	**4,690**	4,512	4,252
Other operating expenses (Note 21)	**26,221**	1,126	-
Total costs and expenses	**1,279,935**	1,273,624	1,202,243
Income from operations	**133,394**	156,419	153,727
Interest expense	**(15,035)**	(14,723)	(13,888)
Other income--net (Note 10)	**5,470**	4,123	717
Income before income taxes	**123,829**	145,819	140,556
Income taxes (Note 11)	**(46,602)**	(56,515)	(54,577)
Net Income	**$ 77,227**	$ 89,304	$ 85,979
Earnings Per Share (Note 15)			
Net Income	**$ 4.24**	$ 4.72	$ 4.19
Average number of shares outstanding	**18,199**	18,924	20,523
Diluted Earnings Per Share (Note 15)			
Net Income	**$ 4.16**	$ 4.62	$ 4.10
Average number of shares outstanding	**18,585**	19,339	20,945

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

CONSOLIDATED BALANCE SHEET

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

December 31,	2013	2012
Assets		
Current assets		
Cash and cash equivalents (Note 9)	$ 84,418	$ 69,531
Accounts receivable less allowances of $12,590 (2012 - $10,892)	91,770	93,333
Inventories	6,703	7,058
Current deferred income taxes (Note 11)	20,257	13,659
Prepaid income taxes	3,690	2,643
Prepaid expenses	17,818	11,447
Total current assets	224,656	197,671
Investments of deferred compensation plans held in trust (Notes 14 and 16)	42,465	36,089
Properties and equipment, at cost, less accumulated depreciation (Note 12)	92,955	91,934
Identifiable intangible assets less accumulated amortization of $32,055 (2012 - $30,414) (Note 6)	56,556	57,177
Goodwill	466,871	465,832
Other assets	10,198	10,923
Total Assets	$ 893,701	$ 859,626
Liabilities		
Current liabilities		
Accounts payable	$ 41,758	$ 48,472
Current portion of long-term debt (Note 3)	183,564	-
Income taxes (Note 11)	111	4,938
Accrued insurance	41,859	40,654
Accrued compensation	48,323	45,457
Accrued legal	23,210	1,161
Other current liabilities	25,161	16,140
Total current liabilities	363,986	156,822
Deferred income taxes (Note 11)	27,301	27,662
Long-term debt (Note 3)	-	174,890
Deferred compensation liabilities (Note 14)	42,348	35,599
Other liabilities	11,176	11,362
Total Liabilities	444,811	406,335
Commitments and contingencies (Notes 13 and 18)		
Stockholders' Equity		
Capital stock - authorized 80,000,000 shares $1 par; issued 32,245,226 shares (2012 - 31,589,366 shares)	32,245	31,589
Paid-in capital	481,011	437,364
Retained earnings	686,114	623,035
Treasury stock - 14,660,427 shares (2012 - 13,057,270 shares), at cost	(752,634)	(640,732)
Deferred compensation payable in Company stock (Note 14)	2,154	2,035
Total Stockholders' Equity	448,890	453,291
Total Liabilities and Stockholders' Equity	$ 893,701	$ 859,626

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Chemed Corporation and Subsidiary Companies
(in thousands)

For the Years Ended December 31,	2013	2012	2011
Cash Flows from Operating Activities			
Net income	$ 77,227	$ 89,304	$ 85,979
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization	32,388	30,521	29,499
Provision for uncollectible accounts receivable	10,907	9,111	8,563
Stock option expense	6,042	8,130	8,376
Amortization of discount on covertible notes	8,674	8,106	7,576
Provision for deferred income taxes (Note 11)	(6,988)	(3,151)	7,242
Noncash portion of long-term incentive compensation	1,301	360	2,595
Amortization of debt issuance costs	1,751	1,265	1,137
Changes in operating assets and liabilities, excluding amounts acquired in business combinations:			
Decrease/(increase) in accounts receivable	(9,009)	(24,421)	26,896
Decrease/(increase) in inventories	355	1,610	(940)
Increase in prepaid expenses	(6,317)	(38)	(1,124)
Increase/(decrease) in accounts payable and other current liabilities	40,340	4,954	(1,397)
Increase/(decrease) in income taxes	(2,461)	6,020	2,708
Increase in other assets	(6,507)	(5,203)	(4,009)
Increase in other liabilities	6,713	8,329	4,548
Excess tax benefit on stock-based compensation	(3,982)	(3,435)	(3,854)
Other sources	413	306	548
Net cash provided by operating activities	150,847	131,768	174,343
Cash Flows from Investing Activities			
Capital expenditures	(29,324)	(35,252)	(29,592)
Business combinations, net of cash acquired (Note 7)	(2,257)	(5,900)	(3,664)
Other sources/(uses)	235	468	(858)
Net cash used by investing activities	(31,346)	(40,684)	(34,114)
Cash Flows from Financing Activities			
Purchases of treasury stock	(92,911)	(60,624)	(143,970)
Capital stock surrendered to pay taxes on stock-based compensation	(5,348)	(4,098)	(3,916)
Dividends paid	(14,148)	(13,026)	(12,538)
Proceeds from exercise of stock options (Note 4)	17,122	12,310	8,036
Excess tax benefit on stock-based compensation	3,982	3,435	3,854
Debt issuance costs	(1,108)	-	(2,657)
Increase/(decrease) in cash overdraft payable	(11,415)	1,924	(826)
Other sources/(uses)	(788)	445	(48)
Net cash used by financing activities	(104,614)	(59,634)	(152,065)
Increase/(decrease) in cash and cash equivalents	14,887	31,450	(11,836)
Cash and cash equivalents at beginning of year	69,531	38,081	49,917
Cash and cash equivalents at end of year	$ 84,418	$ 69,531	$ 38,081

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

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Chemed Corporation and Subsidiary Companies

(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, 2010	$ 30,382	$ 365,007	$ 473,316	$ (408,615)	$ 1,959	$ 462,049
Net income	-	-	85,979	-	-	85,979
Dividends paid ($.60 per share)	-	-	(12,538)	-	-	(12,538)
Stock awards and exercise of stock options (Note 4)	555	33,218	-	(11,576)	-	22,197
Purchases of treasury stock (Note 20)	-	-	-	(143,970)	-	(143,970)
Other	-	(131)	-	70	28	(33)
Balance at December 31, 2011	30,937	398,094	546,757	(564,091)	1,987	413,684
Net income	-	-	89,304	-	-	89,304
Dividends paid ($.68 per share)	-	-	(13,026)	-	-	(13,026)
Stock awards and exercise of stock options (Note 4)	652	38,893	-	(16,085)	-	23,460
Purchases of treasury stock (Note 20)	-	-	-	(60,624)	-	(60,624)
Other	-	377	-	68	48	493
Balance at December 31, 2012	**31,589**	**437,364**	**623,035**	**(640,732)**	**2,035**	**453,291**
Net income	**-**	**-**	**77,227**	**-**	**-**	**77,227**
Dividends paid ($.76 per share)	**-**	**-**	**(14,148)**	**-**	**-**	**(14,148)**
Stock awards and exercise of stock options (Note 4)	**656**	**44,366**	**-**	**(18,851)**	**-**	**26,171**
Purchases of treasury stock (Note 20)	**-**	**-**	**-**	**(92,911)**	**-**	**(92,911)**
Other	**-**	**(719)**	**-**	**(140)**	**119**	**(740)**
Balance at December 31, 2013	**$ 32,245**	**$ 481,011**	**$ 686,114**	**$ (752,634)**	**$ 2,154**	**$ 448,890**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 provides 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

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, 2013, VITAS has approximately $114,000 in unbilled revenue included in accounts receivable (December 31, 2012 - $457,000). The unbilled revenue at VITAS relates to hospice programs currently undergoing various patient file reviews. Surveyors working on behalf of the U.S. Federal government review certain patient files for compliance with Medicare regulations. During the time the patient file is under review, we are unable to bill for care provided to those patients. We make appropriate provisions to reduce our accounts receivable balance for any governmental or other payer reviews resulting in denials of patient service revenue. We believe our hospice programs comply with all payer requirements at the time of billing. However, we cannot predict whether future billing reviews or similar audits by payers will result in material denials or reductions in revenue.

CONCENTRATION OF RISK

As of December 31, 2013 and 2012, approximately 60% and 53%, respectively, of VITAS' total accounts receivable balance were due from Medicare and 31% and 36%, respectively, of VITAS' total accounts receivable balance were due from various state Medicaid programs. Combined accounts receivable from Medicare and Medicaid represent 85% of the consolidated net accounts receivable in the accompanying consolidated balance sheet as of December 31, 2013.

As further described in Note 19, we have agreements with one vendor to provide specified pharmacy services for VITAS and its hospice patients. In 2013 and 2012, respectively, purchases made from this vendor represent over 90% of all pharmacy services used by VITAS.

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 other income, net.

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, 2013, were:

Buildings and building improvements	9.0 yrs.
Transportation equipment	13.9
Machinery and equipment	5.6
Computer software	5.1
Furniture and fixtures	4.7

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 weighted average lives of our identifiable, definite-lived intangible assets at December 31, 2013, were:

Covenants not to compete	6.4 yrs.
Reaquired franchise rights	6.5
Referral networks	10.0
Customer lists	13.3

The date of our annual goodwill and indefinite-lived intangible asset impairment analysis is October 1. The VITAS trade name is considered to have an indefinite life. We also 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. Certificates of Need (CON), which are required in certain states for hospice operations, are generally granted without expiration and thus, we believe them to be indefinite-lived assets subject to impairment testing.

We consider that Roto-Rooter Corp. (RRC), Roto-Rooter Services Co. (RRSC) and VITAS are appropriate reporting units for testing goodwill impairment. We consider RRC and RRSC 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.

In July 2012, the FASB issued Accounting Standards Update ("ASU") No. 2012-02 – Intangibles Goodwill and Other which provided additional guidance related to the impairment testing of indefinite-lived intangible assets. ASU No. 2012–02 allows an entity to first assess qualitative factors to determine whether it is necessary to perform further impairment testing. The revised guidance was effective for fiscal years beginning after September 15, 2012 but early adoption was permitted. Our impairment testing date is October 1 of each year and we adopted the new guidelines in the third quarter of 2012.

We completed our qualitative analysis for impairment of goodwill and our indefinite-lived intangible assets as of October 1, 2013. Based on our assessment, we do not believe that it is more likely than not that our reporting units or indefinite-lived assets fair values are less than their carrying values.

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, the VITAS trade name and capitalized CON costs) 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 other issuance costs are amortized using the effective interest method over the life of the debt.

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, 2013.

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, 2013, 2012 and 2011, was $7.5 million, $8.4 million and $7.3 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. Prior to 2012, our technicians were financially responsible for servicing guarantees and warranty claims. During 2012, Roto-Rooter modified its technician compensation program and the Company began assuming financial responsibility for service guarantees and warranty claims. At December 31, 2013 and 2012 our accrual for such claims was $321,000 and $361,000 respectively.

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 for the year ended December 31, 2013, was $31.0 million (2012 – $29.2 million; 2011 - $27.2 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 $750,000. 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 $1,000,000. 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 due to insufficient taxable income within the carryback or carryforward period available under the tax laws. 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.

CONTINGENCIES

As discussed in Note 18, 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. 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. We disclose material loss contingencies that are probable but not reasonably estimable and those that are at least reasonably possible.

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.

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	Commercial	Other	Total
Beginning Balance January 1, 2011	$ 4,917	$ 3,097	$ 1,569	$ 420	$ 10,003
Bad debt provision	1,393	4,794	2,034	(12)	8,209
Write-offs	(2,496)	(3,787)	(2,956)	(760)	(9,999)
Other/Contractual adjustments	397	130	542	205	1,274
Ending Balance December 31, 2012	**4,211**	**4,234**	**1,189**	**(147)**	**9,487**
Bad debt provision	**506**	**5,169**	**3,084**	**591**	**9,350**
Write-offs	**(1,304)**	**(4,361)**	**(2,691)**	**(534)**	**(8,890)**
Other/Contractual adjustments	**462**	**152**	**622**	**112**	**1,348**
Ending Balance December 31, 2013	**$ 3,875**	**$ 5,194**	**$ 2,204**	**$ 22**	**$ 11,295**

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 2013, 2012 or 2011.

VITAS is also subject to a Medicare annual per-beneficiary cap ("Medicare cap"). Compliance with the Medicare cap is measured in one of two ways based on a provider election. The "streamlined" method compares 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.

The "proportional" method compares 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 the Medicare provider number between September 28 and September 27 of the following year with the product of the per beneficiary cap amount and a pro-rated number of Medicare beneficiaries receiving hospice services from that program during the same period. The pro-rated number of Medicare beneficiaries is calculated based on the ratio of days the beneficiary received hospice services during the measurement period to the the total number of days the beneficiary received hospice services.

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.

During the year ended December 31, 2013, we reversed the Medicare cap liability for amounts recorded in the fourth quarter of 2012 for three programs' projected 2013 measurement period liability. During 2013 this reversal was offset by the Medicare cap liability for two programs' projected 2014 measurement period liability. For the year ended December 31, 2012, we recorded pretax charges in continuing operations for the estimated Medicare cap liability for three programs' projected liability through year end for the 2013 measurement period. This amount was subsequently reversed during the 2013 fiscal year due to increased admission. The net pretax expense/(income) was $7.0 million, ($1.7 million), and $1.6 million for fiscal years 2013, 2012 and 2011, respectively.

Shown below is the Medicare cap liability activity for the years ended December 31, 2013 and 2012 in thousands):

	2013	2012
Beginning Balance January 1,	$ 1,261	$ 2,965
2014 measurement period	3,881	-
2013 measurement period	3,181	874
2012 measurement period	-	(2,578)
2010 measurement period	(63)	-
Ending Balance December 31,	$ 8,260	$ 1,261

3. Long-Term Debt and Lines of Credit

As of December 31, 2013, we have long-term debt of $183.6 million (December 31, 2012 - $174.9 million). This long-term debt is related in its entirety to our Convertible Notes that are due in full in May 2014.

2013 REFINANCING

On January 18, 2013, we replaced our existing credit agreement with a new Revolving Credit Facility ("2013 Credit Agreement"). Terms of the 2013 Credit Agreement consist of a five-year, $350 million revolving credit facility. This 2013 Credit Agreement also included a $150 million expansion feature. The interest rate on the 2013 Credit Agreement is currently LIBOR plus 125 basis points. Debt issuance costs associated with the existing credit agreement were not material. With respect to the 2013 Credit Agreement, deferred financing costs are immaterial.

CONVERTIBLE NOTES

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. We have increased the dividend per share periodically since issuing the Notes. This has the effect of changing the conversion rate to 12.7411 ($78.49 per share) at December 31, 2013.

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. FASB's 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.

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

	December 31,	
	2013	2012
Principal amount of convertible debentures	**$ 186,956**	$ 186,956
Unamortized debt discount	**(3,392)**	(12,066)
Carrying amount of convertible debentures	**$ 183,564**	$ 174,890
Additional paid in capital (net of tax)	**$ 31,310**	$ 31,310

In conjunction with the Notes, we entered into a purchased call transaction (written call) and a sold warrant transaction (sold warrant) 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.

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

	December 31,		
	2013	2012	2011
Cash interest expense	**$ 4,610**	$ 5,352	$ 5,175
Non-cash amortization of debt discount	**8,674**	8,106	7,576
Amortization of debt costs	**1,751**	1,265	1,137
Total interest expense	**$ 15,035**	$ 14,723	$ 13,888

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, 2013 and 2012.

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):

2013	**$ 4,744**
2012	5,547
2011	4,754

DEBT COVENANTS

Collectively, the 2013 Credit Agreement 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, 2013. The restrictive financial covenants are defined in the 2013 Credit Agreement and include maximum leverage ratios, minimum fixed charge coverage and limits on operating leases. We are in compliance with the financial debt covenants as of December 31, 2013, as follows:

Description	Requirement	Chemed
Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA)	< 3.50 to 1.00	1.07 to 1.00
Fixed Charge Coverage Ratio (Consolidated Free Cash Flow/Consolidated Fixed Charges	> 1.50 to 1.00	2.25 to 1.00
Annual Operating Lease Commitment	< $30.0 million	$26.5 million

We have issued $35.0 million in standby letters of credit as of December 31, 2013, mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of December 31, 2013, we have approximately $315.0 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the expansion feature.

4. Stock-Based Compensation Plans

We have four stock incentive plans under which 6.7 million shares can be issued to key employees and directors through a grant of stock options, stock awards and/or performance stock units ("PSUs"). The Compensation/Incentive Committee ("CIC") of the Board of Directors administers these plans.

We grant stock options, stock awards and PSUs to our officers, other key employees and directors to better align their long-term interests with those of our shareholders. We grant stock options at an exercise price equal to the market price of our stock on the date of grant. Options generally vest evenly annually over a three-year period and have a contractual life of 10 years. Restricted stock awards generally cliff vest over a three- or four-year period. Unrestricted stock awards generally are granted to our non-employee directors annually at the time of our annual meeting. PSUs are contingent upon achievement of multi-year earnings targets or market targets. Upon achievement of targets, PSUs are converted to unrestricted shares of capital stock.

We recognize the cost of stock options, stock awards and PSUs on a straight-line basis over the service life of the award, generally the vesting period. We include the cost of restricted stock awards in amortization expense and the cost of all other stock-based compensation in selling, general and administrative expense.

In January and February 2013, the CIC granted 29,992 restricted stock awards to certain key employees. These shares cliff vest in January 2016 or February 2017. In May 2013, the CIC granted 7,032 unrestricted shares of stock to the Company's outside directors.

PERFORMANCE AWARDS

In November 2013, the CIC granted 16,149 PSUs contingent upon the achievement of certain total shareholder return ("TSR") targets as compared to the TSR of a group of peer companies for the three-year period ending December 31, 2015, the date at which such awards may vest. The Company utilized a Monte Carlo simulation approach in a risk-neutral framework with inputs including historical volatility of 30.4% and the risk-free interest rate of 0.36%. The cumulative compensation cost of the TSR-based PSUs award to be recorded over the three year vesting period is $1.2 million.

In November 2013, the CIC also granted 16,149 PSUs contingent upon the achievement of certain earnings per share ("EPS") targets. At end of each reporting period, the Company estimates the number of shares that it believes will ultimately be earned and records that expense over the service period of the award. We currently estimate cumulative compensation cost of the EPS-based PSUs to be recorded over the three year vesting period is $850,000.

The EBITDA and market-price PSUs granted in November 2012 expired without any shares being issued as the targets were not achieved.

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.

The following table summarizes total stock option and stock award activity during 2013:

	Stock Options				Stock Awards and PSUs	
		Weighted Average		Aggregate		Weighted
	Number of Options	Exercise Price	Remaining Contractual Life (Years)	Intrinsic Value (thousands)	Number of Shares	Average Grant-Date Price
Outstanding at January 1, 2013	2,461,455	$ 57.41			269,292	$ 50.34
Granted	329,274	70.30			69,322	74.60
Exercised/Vested	(619,248)	49.46			(56,644)	47.18
Canceled/ Forfeited	(4,069)	64.04			(412)	65.17
Outstanding at December 31, 2013	2,167,412	61.63	6.4	$ 33,308	281,558	56.93
Vested and expected to vest at December 31, 2013	2,167,412	61.63	6.4	33,308	277,524	56.74
Exercisable at December 31, 2013	1,377,534	58.76	5.2	25,123	n.a.	n.a.

We estimate the fair value of stock options using the Black-Scholes valuation model. 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.

Comparative data for stock option and stock award activity include (in thousands, except per-share amounts):

	Years Ended December 31,		
	2013	2012	2011
Total compensation cost of stock-based compensation plans charged against income	**$ 10,868**	$ 11,975	$ 14,237
Total income tax benefit recognized in income for stock based compensation plans	**3,994**	4,401	5,232
Total intrinsic value of stock options exercised	**16,922**	15,671	12,925
Total intrinsic value of stock awards vested during the period	**4,298**	2,786	3,757
Per-share weighted averaged grant-date fair value of stock awards granted	**74.60**	41.49	64.74

The assumptions we used to value stock option grants are as follows:

	2013	2012	2011
Stock price on date of issuance	**$ 70.30**	$ 63.36	$ 65.17
Grant date fair value per share	**$ 14.79**	$ 15.98	$ 19.08
Number of options granted	**329,274**	442,350	513,100
Expected term (years)	**4.9**	4.9	4.9
Risk free rate of return	**1.39%**	0.89%	2.35%
Volatility	**24.90%**	30.80%	32.80%
Dividend yield	**1.1%**	1.0%	1.0%
Forfeiture rate	-	-	-

Other data for stock options and stock awards for 2013 include (dollar amounts in thousands):

	Stock Options	Stock Awards and PSUs
Total unrecognized compensation related to nonvested options and awards at end of year	$ 7,459	$ 6,465
Weighted average period over which unrecognized compensation cost of nonvested options and awards to be recognized (years)	2.2	2.1
Actual income tax benefit realized from options exercised during the year	$ 6,251	n.a.
Aggregate intrinsic value of stock awards and PSUs vested and expected to vest	n.a.	21,369

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 74% and 26%, respectively, in 2013 and 75% and 25%, respectively, in 2012. 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 RRSC and RRC 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 terminal 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.

Segment data are set forth below (in thousands):

	For the Years Ended December 31,		
	2013	2012	2011
Revenues by Type of Service			
VITAS			
Routine homecare	**$ 791,735**	$ 778,776	$ 718,658
Continuous care	**155,409**	172,063	158,466
General inpatient	**104,968**	114,494	110,742
Medicare cap	**(6,999)**	1,704	(1,594)
Total segment	**1,045,113**	1,067,037	986,272
Roto-Rooter			
Sewer and drain cleaning	**141,283**	138,500	138,932
Plumbing repair and maintenance	**172,002**	172,310	177,363
Independent contractors	**33,030**	28,522	26,711
HVAC repair and maintenance	**-**	1,109	3,410
Other products and services	**21,901**	22,565	23,282
Total segment	**368,216**	363,006	369,698
Total service revenues and sales	**$ 1,413,329**	$ 1,430,043	$ 1,355,970
Aftertax Segment Earnings/(Loss)			
VITAS	**$ 76,144**	$ 86,577	$ 80,358
Roto-Rooter	**29,243**	30,905	34,879
Total	**105,387**	117,482	115,237
Corporate	**(28,160)**	(28,178)	(29,258)
Net income	**$ 77,227**	$ 89,304	$ 85,979
Interest Income			
VITAS	**$ 5,038**	$ 3,883	$ 4,293
Roto-Rooter	**2,096**	1,647	2,176
Total	**7,134**	5,530	6,469
Corporate	**56**	76	91
Intercompany eliminations	**(6,343)**	(4,797)	(6,134)
Total interest income	**$ 847**	$ 809	$ 426
Interest Expense			
VITAS	**$ 182**	$ 233	$ 229
Roto-Rooter	**322**	433	358
Total	**504**	666	587
Corporate	**14,531**	14,057	13,301
Total interest expense	**$ 15,035**	$ 14,723	$ 13,888
Income Tax Provision			
VITAS	**$ 46,910**	$ 53,092	$ 48,835
Roto-Rooter	**17,560**	18,770	21,353
Total	**64,470**	71,862	70,188
Corporate	**(17,868)**	(15,347)	(15,611)
Total income tax provision	**$ 46,602**	$ 56,515	$ 54,577
Identifiable Assets			
VITAS	**$ 518,316**	$ 519,555	$ 504,677
Roto-Rooter	**241,679**	224,735	212,234
Total	**759,995**	744,290	716,911
Corporate	**133,706**	115,336	78,994
Total identifiable assets	**$ 893,701**	$ 859,626	$ 795,905
Additions to Long-Lived Assets			
VITAS	**$ 16,219**	$ 24,735	$ 24,298
Roto-Rooter	**15,202**	16,132	9,426
Total	**31,421**	40,867	33,724
Corporate	**160**	285	72
Total additions to long-lived assets	**$ 31,581**	$ 41,152	$ 33,796

	For the Years Ended December 31,		
	2013	2012	2011
Depreciation and Amortization			
VITAS	**$ 20,251**	$ 19,043	$ 18,480
Roto-Rooter	**9,621**	9,029	8,729
Total	**29,872**	28,072	27,209
Corporate	**2,516**	2,449	2,290
Total depreciation and amortization	**$ 32,388**	$ 30,521	$ 29,499

6. Intangible Assets

Amortization of definite-lived intangible asset for the years ended December 31, 2013, 2012, 2011 was $1.6 million, $1.5 million and $1.5 million, respectively. The following is a schedule by year of projected amortization expense for definite-lived intangible assets (in thousands):

2014	$ 709
2015	479
2016	408
2017	256
2018	174
Thereafter	377

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

	Gross Asset	Accumulated Amortization	Net Book Value
December 31, 2013			
Referral networks	**$ 22,599**	**$ (21,219)**	**$ 1,380**
Covenants not to compete	**9,570**	**(9,096)**	**474**
Customer lists	**1,222**	**(1,170)**	**52**
Reaquired franchise rights	**1,065**	**(570)**	**495**
Subtotal - definite-lived intangibles	**34,456**	**(32,055)**	**2,401**
VITAS trade name	**51,300**	**-**	**51,300**
Rapid Rooter trade name	**150**	**-**	**150**
Operating licenses	**2,705**	**-**	**2,705**
Total	**$ 88,611**	**$ (32,055)**	**$ 56,556**
December 31, 2012			
Referral networks	$ 21,729	$ (19,884)	$ 1,845
Covenants not to compete	9,446	(8,974)	472
Customer lists	1,224	(1,146)	78
Reaquired franchise rights	1,037	(410)	627
Subtotal - definite-lived intangibles	33,436	(30,414)	3,022
VITAS trade name	51,300	-	51,300
Rapid Rooter trade name	150	-	150
Operating licenses	2,705	-	2,705
Total	$ 87,591	$ (30,414)	$ 57,177

7. Business Combinations

During 2013, we completed one business combination within the Roto-Rooter segment for $756,000 in cash to increase our market penetration in Pueblo, Colorado. We made one acquisition within the VITAS segment for $1.5 million in cash to increase our market penetration in Houston, Texas during 2013. The purchase price of these acquisitions was allocated as follows (in thousands):

Identifiable intangible assets	**$**	**1,023**
Goodwill		**1,212**
Other assets and liabilities - net		**22**
	$	**2,257**

During 2012, we completed four business combinations within the Roto-Rooter segment for $5.9 million in cash to increase our market penetration in Bend, Oregon, Boise, Idaho, Shreveport, Louisiana and Ft. Lauderdale, Florida. We made no acquisitions with the VITAS segment during 2012. The purchase price of these acquisitions was allocated as follows (in thousands):

Identifiable intangible assets	$	373
Goodwill		5,094
Other assets and liabilities - net		433
	$	5,900

On April 29, 2011, our VITAS segment completed an acquisition of the operating assets of Family Comfort Hospice which is based in Alabama. This acquisition adds three central Alabama locations serving ten counties to VITAS' network of hospice programs. We made no acquisitions within the Roto-Rooter segment during 2011. The purchase price of this acquisition is allocated as follows (in thousands):

Working capital	$	382
Identifiable intangible assets		951
Goodwill		2,320
Other assets and liabilities - net		11
	$	3,664

The unaudited pro forma results of operations, assuming purchase business combinations completed in 2013 and 2012 were completed on January 1, 2012, 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.

8. Discontinued Operations

At December 31, 2013 and 2012, the accrual for our estimated liability for potential environmental cleanup and related costs arising from the 1991 sale of DuBois amounted to $1.7 million. Of the 2013 balance, $826,000 is included in other current liabilities and $901,000 is included in other liabilities (long-term). The estimated timing of payments of these liabilities follows (in thousands):

2014	$	826
2015		300
Thereafter		601
	$	1,727

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.

9. Cash Overdrafts and Cash Equivalents

Included in accounts payable are cash overdrafts of $806,000 and $12.2 million as of December 31, 2013 and 2012, 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 $23.1 million in cash equivalents as of December 31, 2013. There was $56.6 million in cash equivalents as of December 31, 2012. The weighted average rate of return for our cash equivalents was 0.08% in 2013 and 0.2% in 2012.

10. Other Income—Net

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

	For the Years Ended December 31,		
	2013	2012	2011
Market value gains related to deferred compensation trusts	**$ 4,982**	$ 3,499	$ 799
Loss on disposal of property and equipment	**(320)**	(347)	(441)
Interest income	**847**	809	426
Other - net	**(39)**	162	(67)
Total other income	**$ 5,470**	$ 4,123	$ 717

The offset for market value gains or losses of the deferred compensation trust are recorded in selling, general and administrative expenses.

11. Income Taxes

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

	For the Years Ended December 31,		
	2013	2012	2011
Current			
U.S. federal	**$ 45,348**	$ 51,467	$ 40,762
U.S. state and local	**7,731**	7,813	5,961
Foreign	**511**	386	612
Deferred			
U.S. federal, state and local	**(6,995)**	(3,271)	7,227
Foreign	**7**	120	15
Total	**$ 46,602**	$ 56,515	$ 54,577

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

	December 31, 2013	December 31, 2012
Accrued liabilities	**$ 41,434**	$ 32,772
Stock compensation expense	**14,866**	15,190
Allowance for uncollectible accounts receivable	**1,396**	1,510
State net operating loss carryforwards	**1,495**	1,461
Other	**800**	678
Deferred income tax assets	**59,991**	51,611
Amortization of intangible assets	**(45,941)**	(44,201)
Accelerated tax depreciation	**(15,379)**	(16,536)
Market valuation of investments	**(2,279)**	(1,569)
Currents assets	**(1,459)**	(1,600)
Other	**(1,949)**	(1,671)
Deferred income tax liabilities	**(67,007)**	(65,577)
Net deferred income tax liabilities	**$ (7,016)**	$ (13,966)

At December 31, 2013 and 2012, state net operating loss carryforwards were $29.4 million and $28.4 million, respectively. These net operating losses will expire, in varying amounts, between 2014 and 2033. 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.

A reconciliation of the beginning and ending of year amount of our unrecognized tax benefit is as follows (in thousands):

	2013	2012	2011
Balance at January 1,	**$ 2,646**	$ 2,612	$ 704
Unrecognized tax benefits due to positions taken in current year	**219**	219	2,038
Decrease due to expiration of statute of limitations	**(1,973)**	(185)	(130)
Balance at December 31,	**$ 892**	$ 2,646	$ 2,612

We file tax returns in the U.S. federal jurisdiction and various states. The years ended December 31, 2010 and forward remain open for review for federal income tax purposes. The earliest open year relating to any of our major state jurisdictions is the fiscal year ended December 31, 2008. During the next twelve months, we do not anticipate a material net change in unrecognized tax benefits.

We classify interest related to our accrual for uncertain tax positions in separate interest accounts. As of December 31, 2013 and 2012, we have approximately $116,000 and $306,000, 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.

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, 2013	2012	2011
Income tax provision calculated using the statutory rate of 35%	**$ 43,340**	$ 51,037	$ 49,195
State and local income taxes, less federal income tax effect	**4,323**	4,601	4,733
Uncertain tax position adjustments	**(1,782)**	-	-
Nondeductible expenses	**1,250**	1,137	1,062
Other --net	**(529)**	(260)	(413)
Income tax provision	**$ 46,602**	$ 56,515	$ 54,577
Effective tax rate	**37.6%**	38.8%	38.8%

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

2013	$	55,827
2012		53,436
2011		44,343

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.

12. Properties and Equipment

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

	December 31,	
	2013	2012
Land	**$ 1,392**	$ 1,363
Buildings	**52,328**	47,831
Transportation equipment	**20,381**	20,165
Machinery and equipment	**71,121**	69,299
Computer software	**49,110**	47,184
Furniture and fixtures	**71,167**	68,394
Projects under development	**8,006**	2,305
Total properties and equipment	**273,505**	256,541
Less accumulated depreciation	**(180,550)**	(164,607)
Net properties and equipment	**$ 92,955**	$ 91,934

The net book value of computer software at December 31, 2013 and 2012, was $12.2 million and $14.1 million, respectively. Depreciation expense for computer software was $3.9 million, $4.3 million and $5.6 million for the years ended December 31, 2013, 2012 and 2011, respectively.

13. 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 monthly to nine 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, 2013 or 2012.

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, 2013 (in thousands):

2014	**$ 23,108**
2015	17,835
2016	13,488
2017	8,277
2018	4,713
Thereafter	4,405
Total minimum rental payments	$ 71,826

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

	For the Years Ended December 31,		
	2013	**2012**	2011
Total rental payments	**$ 38,992**	**$ 39,997**	$ 38,474
Less sublease rentals	**-**	**(103)**	(170)
Net rental expense	**$ 38,992**	**$ 39,894**	$ 38,304

The amounts shown above as Total rental payments and Net rental expense for 2012 and 2011 increased $16.0 million and $16.3 million, respectively from the prior year presentation due to certain in-patient unit leases being inadvertently omitted. The omission did not affect our results of operations, financial position or cash flows. All years are presented consistently.

14. 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 for our retirement and profit-sharing plans, excess benefit plans and other similar plans are as follows (in thousands):

For the Years Ended December 31,		
2013	2012	2011
$ 14,511	$ 11,376	$ 9,408

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, 2013, these trusts held 97,801 shares or $2.2 million of our stock (2012 – 96,148 shares or $2.1 million).

15. Earnings Per Share

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

For the Years Ended December 31,	Net Income	Shares	Earnings per Share
2013			
Earnings	**$ 77,227**	**18,199**	**$ 4.24**
Dilutive stock options	**-**	**278**	
Nonvested stock awards	**-**	**108**	
Diluted earnings	**$ 77,227**	**18,585**	**$ 4.16**
2012			
Earnings	$ 89,304	18,924	$ 4.72
Dilutive stock options	-	316	
Nonvested stock awards	-	99	
Diluted earnings	$ 89,304	19,339	$ 4.62
2011			
Earnings	$ 85,979	20,523	$ 4.19
Dilutive stock options	-	335	
Nonvested stock awards	-	87	
Diluted earnings	$ 85,979	20,945	$ 4.10

During 2013, 358,000 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 2012, 1.4 million stock options were also excluded. During 2011, 1.3 million 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 at December 31, 2013. It also shows the impact on the number of shares issuable upon conversion of the Notes and settlement of the purchased call options and sold warrants:

	Share Price	Shares Underlying 1.875% Convertible Notes	Warrant Shares	Total Treasury Method Incremental Shares (a)	Shares Due to the Company under Notes Hedges	Incremental Shares Issued/(received) by the Company upon Conversion (b)
$	80.73	66,201	-	66,201	(70,820)	(4,619)
$	90.73	321,444	-	321,444	(343,871)	(22,427)
$	100.73	526,008	-	526,008	(562,708)	(36,700)
$	110.73	693,624	121,738	815,362	(742,018)	73,344
$	120.73	833,473	322,722	1,156,195	(891,625)	264,570
$	130.73	951,927	492,957	1,444,884	(1,018,343)	426,541

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.

16. 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, 2013 (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)
Investments of deferred compensation plans held in trust	$ 42,465	$ 42,465	$ -	$ -
Current portion of long-term debt	183,564	193,032	-	-

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of December 31, 2012 (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)
Investments of deferred compensation plans held in trust	$ 36,089	$ 36,089	$ -	$ -
Long-term debt	174,890	197,874	-	-

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

17. Loans Receivable from Independent Contractors

At December 31, 2013, we had contractual arrangements with 68 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, 2013 is approximately $1.5 million (2012 - $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, 2013. We recorded the following from our independent contractors (in thousands):

	For the Years Ended December 31,		
	2013	2012	2011
Revenues	$ 33,030	$ 28,522	$ 26,711
Pretax profits	17,726	14,790	13,320

18. Legal and Regulatory Matters

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

Regulatory Matters and Litigation

In February 2010, Chemed and Roto-Rooter were named as defendants in a lawsuit filed in the United States District Court for the Eastern District of New York, *Anthony Morangelli, et al., v. Chemed Corp. and Roto-Rooter Services Co.,* No. 10-CV-00876 (BMC). The named plaintiffs, current and former technicians employed by Roto-Rooter who were paid on a commission basis, asserted against Chemed and Roto-Rooter claims for violation of the Fair Labor Standards Act ("FLSA") and claims for violations of the labor laws of multiple states. In June 2013 the parties reached an agreement to settle the case for $14.3 million plus applicable payroll taxes ($9.0 million after tax). As such, $14.8 million is recorded as other operating expense in the year ended December 31, 2013 Statement of Income and is included in accrued legal at December 31, 2013.

VITAS is party to a class action lawsuit filed in the Superior Court of California, Los Angeles County in September 2006 by Bernadette Santos, Keith Knoche and Joyce White, *Bernadette Santos, et al. v. VITAS Healthcare Corporation of California*, BC359356. This case alleges failure to pay overtime and failure to provide meal and rest periods to a purported class of California admissions nurses, chaplains and sales representatives. The case seeks payment of penalties, interest and Plaintiffs' attorney fees. In December 2009, the trial court denied Plaintiffs' motion for class certification. In July 2011, the Court of Appeals affirmed denial of class certification on the travel time, meal and rest period claims, and reversed the trial court's denial on the off-the-clock and sales representation exemption claims. Plaintiffs filed an appeal of this decision. In September 2012, in response to an order of reconsideration, the Court of Appeals reiterated its previous rulings. In March 2013, the Court granted summary judgment dismissing the sales representatives' claims as they are exempt employees. In October 2013 we reached agreement to settle the case for $10.3 million plus applicable payroll taxes ($6.5 million aftertax). As such, $10.5 million is recorded as other operating expense in the year ended December 31, 2013 Statement of Income. This settlement was paid in 2013.

On January 12, 2012, a putative class action lawsuit was filed in the U.S. District Court for the Southern District of Ohio against the Company, Kevin McNamara, David Williams, and Timothy O'Toole, *In re Chemed Corp. Securities Litigation*, Civil Action No. 1:12-cv-28 (S.D. Ohio). On June 18, 2012, an amended complaint was filed alleging violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 against all Defendants, and violation of Section 20(a) of the Securities Exchange Act of 1934 against Messrs. McNamara, Williams, and O'Toole. The suit's allegations concern the VITAS hospice segment of the Company's business. Plaintiffs seek, on behalf of a putative class of purchasers of Chemed Capital Stock, compensatory damages in an unspecified amount and attorneys' fees and expenses, arising from Defendants' alleged failure to disclose an alleged fraudulent scheme at VITAS to enroll ineligible hospice patients and to fraudulently obtain payments from the federal government. Defendants filed motions to dismiss the amended complaint on August 17, 2012, which were pending when the parties reached an agreement to settle the action. On June 7, 2013, following the filing of U.S. v. VITAS, discussed below, Plaintiffs filed a motion for leave to file a second amended complaint. Defendants opposed this motion. On September 16, 2013, Plaintiffs executed a Settlement Term Sheet with Defendants, reaching an agreement in principle to settle this case subject to Court approval. On February 6, 2014, Plaintiffs, on behalf of a putative class of purchasers of Chemed Capital Stock between February 15, 2010 and May 2, 2013, inclusive, executed a stipulation of settlement with defendants, agreeing to settle this case in full and with prejudice, and to provide Defendants with full releases of all claims that are or could have been asserted by Plaintiffs in exchange for payment of $6.0 million by our insurer into a settlement fund for the benefit of the putative settlement class ("Settlement"). The Settlement has been recorded as an accrual and offsetting prepaid in the accompanying Balance Sheet. This Settlement is subject to Court approval. Defendants agreed to enter into this Settlement in order to eliminate the burden, expense and distraction of further litigation.

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

Also in June 2011, the U.S. Attorney provided the Company with a partially unsealed *qui tam* complaint filed under seal in the U.S. District Court for the Northern District of Illinois, *United States, et al. ex rel. Spottiswood v. Chemed Corp.*, 1:07-cv-4566 ("*Spottiswood*"). In April 2012, the complaint was unsealed. The U.S. Attorney and Attorney General for the State of Illinois filed notices in April and May 2012, respectively, stating that they had decided not to intervene in the case at that time but indicating that they continue to investigate the allegations. Plaintiff filed an amended complaint in November 2012. The complaint asserts violations of the federal False Claims Act and the Illinois Whistleblower Reward and Protection Act based on allegations that VITAS fraudulently billed Medicare and Medicaid for providing unwarranted continuous care services. The suit was brought by Laura Spottiswood, a former part-time pool registered nurse at VITAS, against Chemed, VITAS, and a VITAS affiliate. The complaint was served on the defendants on April 12, 2013. On May 29 and June 4, 2013, respectively, the Court granted the government's motion to partially intervene in *Spottiswood* and in *Urick* on the allegations that VITAS submitted or caused to be submitted false or fraudulent claims for continuous care and routine home care on behalf of certain ineligible Medicare beneficiaries. The Court also transferred them to the U.S. District Court for the Western District of Missouri under docket Nos. 4:13-cv-505 and 4:13-cv-563, respectively.

On May 2, 2013, the government filed a False Claims Act complaint against the Company and certain of its hospice-related subsidiaries in the U.S. District Court for the Western District of Missouri, *United States v. VITAS Hospice Services, LLC, et al.*, No. 4:13-cv-00449-BCW (the "2013 Action"). Prior to that date, the Company received various subpoenas from the U.S. Department of Justice and OIG that have been previously disclosed. The 2013 Action alleges that, since at least 2002, VITAS, and since 2004, the Company, submitted or caused the submission of false claims to the Medicare program by (a) billing Medicare for continuous home care services when the patients were not eligible, the services were not provided, or the medical care was inappropriate, and (b) billing Medicare for patients who were not eligible for the Medicare hospice benefit because they did not have a life expectancy of six months or less if their illnesses ran their normal course. This complaint seeks treble damages, statutory penalties, and the costs of the action, plus interest. On August 1, 2013, the government filed its First Amended Complaint in the 2013 Action. The First Amended Complaint changed and supplemented some of the allegations, but did not otherwise expand the causes of action or the nature of the relief sought against VITAS. The defendants filed a motion to dismiss on September 24, 2013.

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

On September 25, 2013, the Court granted a joint motion by the government, the relators, and VITAS to consolidate the *Spottiswood*, *Urick*, and *Gonzales* complaints with the 2013 Action. As a result, the First Amended Complaint will govern the consolidated claims brought by the United States and the relators for all purposes. The relators and VITAS have stipulated that certain non-intervened claims will not be pursued by the relators.

VITAS has also received document subpoenas in related state matters. In February 2010, VITAS received a civil investigative demand ("CID") from the Texas Attorney General seeking documents from January 1, 2002 through the date of the CID, and interrogatory responses in connection with an investigation of possible fraudulent submission of Medicaid claims for non-qualifying patients and fraudulent shifting of costs from VITAS to the State of Texas and the United States. The CID requested similar information sought by prior Department of Justice subpoenas, including policy and procedure manuals and information concerning Medicare and Medicaid billing, patient statistics and sales and marketing practices, together with information concerning record-keeping and retention practices, and medical records concerning 117 patients. In September 2010, VITAS received a second CID from the Texas Attorney General seeking additional documents concerning business plans and results, revocation forms for certain patients, and electronic documents of 10 current and former employees. In July 2012, VITAS received an investigative subpoena from the Florida Attorney General seeking documents previously produced in the course of prior government investigations as well as, for the period January 1, 2007 through the date of production, billing records and procedures; information concerning business results, plans, and strategies; documents concerning patient eligibility for hospice care; and certain information concerning employees and their compensation.

In November 2013, two shareholder derivative lawsuits were filed against the Company's current and former directors, as well as certain of its officers both of which are covered by the Company's commercial insurance. On November 6, 2013, KBC Asset Management NV filed suit in the United States Distrct Court for the District of Delaware, *KBC Asset Management NV, derivatively on behalf of Chemed Corp. v. McNamara, et al.*, No. 13 Civ. 1854 (LPS) (D. Del.). It sued Kevin McNamara, Joel Gemunder, Patrick Grace, Thomas Hutton, Walter Krebs, Andrea Lindell, Thomas Rice, Donald Saunders, Arthur Tucker, Jr., George Walsh III, Frank Wood, Timothy O'Toole, David Williams and Ernest Mrozek, together with the Company as nominal defendant. Plaintiff alleges that since at least 2004, Chemed, through VITAS, has submitted or caused the submission of false claims to Medicare. The suit alleges a claim for breach of fiduciary duty against the individual defendants, and seeks (a) a declaration that the individual defendants breached their fiduciary duties to the Company; (b) an order requiring those defendants to pay compensatory damages, restitution and exemplary damages, in unspecified amounts, to the Company; (c) an order directing the Company to implement new policies and procedures; and (d) costs and disbursements incurred in bringing the action, including attorneys' fees.

On November 14, 2013, Mildred A. North filed suit in the United States District Court for the Southern District of Ohio, *North, derivatively on behalf of Chemed Corp. v. Kevin McNamara, el al.*, No. 13 Civ. 833 (MDB) (S.D. Ohio). She sued Kevin McNamara, David Williams, Timothy O'Toole, Joel Gemunder, Patrick Grace, Walter Krebs, Andrea Lindell, Thomas Rice, Donald Saunders, George Walsh III, Frank Wood and Thomas Hutton, together with the Company as nominal defendant. Plaintiff alleges that, between February 2010 and the present, the individual defendants breached their fiduciary duties as officers and directors of Chemed by, among other things, (a) allegedly causing VITAS to submit improper and ineligible claims to Medicare and Medicaid; and (b) allegedly misrepresenting the state of Chemed's internal controls. The suit alleges claims for breach of fiduciary duty, abuse of control and gross mismanagement against the individual defendants. The complaint also alleges unjust enrichment and insider trading against Messrs. McNamara, Williams and O'Toole. Plaintiff seeks (a) a declaration that the individual defendants breached their fiduciary duties to the Company; (b) an order requiring those defendants to pay compensatory damages, restitution and exemplary damages, in unspecified amounts, to the Company; (c) an order directing the Company to implement new policies and procedures; and (d) costs and disbursements incurred in bringing the action, including attorneys' fees.

On December 20, 2013, Plaintiff in the *North* action filed a motion before the Judicial Panel on Multidistrict Litigation seeking centralized treatment of her action and the *KBC* action in the U.S. District Court for the Southern District of Ohio. Defendants in both cases, as well as Plaintiff KBC, opposed that motion, consistent with Chemed's By-law 8.07, which requires all derivative suits brought in Chemed's name to proceed in federal or state court in Delaware. The MDL Panel has yet to rule on that motion. On January 29, 2014 Defendants filed motions to transfer *North* to Delaware under 28 U.S.C § 1404 and to stay the case until after resolution of that motion and the MDL motion.

The Company intends to defend vigorously against the allegations in each of the above lawsuits. The Company had a net recovery for these OIG investigations, due to a one-time insurance reimbursement of $1.0 million for certain legal costs, for the year ended December 31, 2013. The net costs to comply with these investigations were $2.1 million, $1.2 million and $1.2 million for the years ending December 31, 2013, 2012 and 2011, respectively. Regardless of the outcome of any of the preceding matters, responding to the subpoenas and dealing with the various regulatory agencies and opposing parties can adversely affect us through defense costs, potential payments, diversion of management time, and related publicity. Although the Company intends to defend them vigorously, there can be no assurance that those suits will not have a material adverse effect on the Company.

19. Concentration of Risk

VITAS has pharmacy services agreements ("Agreements") with Omnicare, Inc. and its subsidiaries ("OCR") whereby OCR provides specified pharmacy services for VITAS and its hospice patients in geographical areas served by both VITAS and OCR. 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 $39.0 million, $40.9 million and $39.4 million for the years ended December 31, 2013, 2012 and 2011, respectively. For the years ended December 31, 2013, 2012 and 2011, respectively, purchases from this vendor represent over 90% of all pharmacy services used by VITAS. VITAS' accounts payable to OCR and its subsidiaries was $3.8 million at December 31, 2013.

20. Capital Stock Transactions

On February 20, 2013, our Board of Directors authorized an additional $100 million for stock repurchase under the February 2011 repurchase program. On November 7, 2011 our Board of Directors authorized an additional $100 million of stock repurchases under the February 2011 repurchase program. On February 22, 2011, our Board of Directors authorized $100 million of stock repurchases under the February 2011 repurchase program. We repurchased the following capital stock:

	For the Years Ended December 31,		
	2013	2012	2011
Shares repurchased	**1,356,344**	932,706	2,602,513
Weighted average price per share	**$ 68.50**	$ 64.87	$ 55.28

21. Other Operating Expenses

	For the Years Ended December 31,		
	2013	**2012**	**2011**
Litigation settlement of VITAS segment (a)	**$ 10,500**	$ -	$ -
Settlements of Roto-Rooter segment (b)	**15,721**	-	-
Severance and other operating costs related to closing Roto-Rooter's HVAC business	-	1,126	-
Total other operating expenses	**$ 26,221**	$ 1,126	$ -

(a) Santos claims discussed in Note 18.
(b) Morganelli claims discussed in Note 18 and estimated settlement of certain customer claims.

In August 2012, Roto-Rooter management made the decision to shut-down its one remaining heating, ventilation and air conditioning (HVAC) business located in Baltimore, Maryland. The HVAC business was a portion of a larger business which included plumbing operations. The plumbing and HVAC businesses shared facilities and administrative functions. The costs and related cash flows of these shared facilities and administrative functions were not separately tracked or allocated for the HVAC operation. As a result, the HVAC business does not qualify for discontinued operation treatment under US GAAP. The operating results of the HVAC operation are reported in continuing operations in the consolidated financial statements for all periods presented. The pretax costs incurred in conjunction with the shut-down were $1.1 million and are recorded in other operating expenses. The costs comprise mainly severance and lease termination costs.

22. 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 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 significant 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, 2013 and 2012, and for the years ended December 31, 2013, 2012 and 2011 (in thousands):

December 31, 2013	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Cash and cash equivalents	$ 84,005	$ (8,777)	$ 9,190	$ -	$ 84,418
Accounts receivable, including intercompany	925	509,580	1,000	(419,735)	91,770
Inventories	-	6,246	457	-	6,703
Current deferred income taxes	-	21,307	126	(1,176)	20,257
Prepaid income taxes	3,710	1,176	349	(1,545)	3,690
Prepaid expenses	6,925	10,682	211	-	17,818
Total current assets	95,565	540,214	11,333	(422,456)	224,656
Investments of deferred compensation plans	-	-	42,465	-	42,465
Properties and equipment, at cost less accumulated depreciation	10,184	80,144	2,627	-	92,955
Identifiable intangible assets less accumulated amortization	-	56,556	-	-	56,556
Goodwill	-	462,489	4,382	-	466,871
Other assets	17,782	1,775	15,888	(25,247)	10,198
Investments in subsidiaries	945,450	27,564	-	(973,014)	-
Total assets	$ 1,068,981	$ 1,168,742	$ 76,695	$ (1,420,717)	$ 893,701
LIABILITIES AND STOCKHOLDERS' EQUITY					
Accounts payable, including intercompany	$ 417,593	$ 39,424	$ 4,476	$ (419,735)	$ 41,758
Current portion of long-term debt	183,564	-	-	-	183,564
Income taxes	1,106	210	340	(1,545)	111
Accrued insurance	784	41,075	-	-	41,859
Accrued compensation	5,047	42,905	371	-	48,323
Accrued legal	6,031	17,179	-	-	23,210
Other current liabilities	2,739	22,219	1,379	(1,176)	25,161
Total current liabilities	616,864	163,012	6,566	(422,456)	363,986
Deferred income taxes	-	52,548	-	(25,247)	27,301
Deferred compensation liabilities	-	-	42,348	-	42,348
Other liabilities	3,227	6,914	1,035	-	11,176
Stockholders' equity	448,890	946,268	26,746	(973,014)	448,890
Total liabilities and stockholders' equity	$ 1,068,981	$ 1,168,742	$ 76,695	$ (1,420,717)	$ 893,701

December 31, 2012	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Cash and cash equivalents	$ 56,342	$ 4,674	$ 8,515	$ -	$ 69,531
Accounts receivable, including intercompany	925	427,341	889	(335,822)	93,333
Inventories	-	6,505	553	-	7,058
Current deferred income taxes	-	14,633	173	(1,147)	13,659
Prepaid income taxes	4,043	-	-	(1,400)	2,643
Prepaid expenses	564	10,656	227	-	11,447
Total current assets	61,874	463,809	10,357	(338,369)	197,671
Investments of deferred compensation plans	-	-	36,089	-	36,089
Properties and equipment, at cost less accumulated depreciation	10,984	78,236	2,714	-	91,934
Identifiable intangible assets less accumulated amortization	-	57,177	-	-	57,177
Goodwill	-	461,277	4,555	-	465,832
Other assets	19,025	2,005	13,797	(23,904)	10,923
Investments in subsidiaries	874,692	24,298	-	(898,990)	-
Total assets	$ 966,575	$ 1,086,802	$ 67,512	$ (1,261,263)	$ 859,626
LIABILITIES AND STOCKHOLDERS' EQUITY					
Accounts payable, including intercompany	$ 325,916	$ 53,934	$ 4,444	$ (335,822)	$ 48,472
Income taxes	1,019	3,816	1,503	(1,400)	4,938
Accrued insurance	1,339	39,315	-	-	40,654
Accrued compensation	4,119	40,891	447	-	45,457
Accrued legal	6	1,155	-	-	1,161
Other current liabilities	2,780	12,748	1,759	(1,147)	16,140

Total current liabilities	335,179	151,859	8,153	(338,369)	156,822
Deferred income taxes	-	51,566	-	(23,904)	27,662
Long-term debt	174,890	-	-	-	174,890
Deferred compensation liabilities	-	-	35,599	-	35,599
Other liabilities	3,215	7,352	795	-	11,362
Stockholders' equity	453,291	876,025	22,965	(898,990)	453,291
Total liabilities and stockholders' equity	$ 966,575	$ 1,086,802	$ 67,512	$ (1,261,263)	$ 859,626

For the year ended December 31, 2013

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales and service revenues	$ -	$ 1,383,140	$ 30,189	$ -	$ 1,413,329
Cost of services provided and goods sold	-	991,816	16,992	-	1,008,808
Selling, general and administrative expenses	23,055	176,967	12,496	-	212,518
Depreciation	959	25,797	942	-	27,698
Amortization	1,981	2,709	-	-	4,690
Other operating expenses	-	26,221	-	-	26,221
Total costs and expenses	25,995	1,223,510	30,430	-	1,279,935
Income/(loss) from operations	(25,995)	159,630	(241)	-	133,394
Interest expense	(14,713)	(504)	182	-	(15,035)
Other (expense)/income - net	16,326	(15,833)	4,977	-	5,470
Income/(loss) before income taxes	(24,382)	143,293	4,918	-	123,829
Income tax (provision)/benefit	7,729	(54,456)	125	-	(46,602)
Equity in net income of subsidiaries	93,880	4,409	-	(98,289)	-
Net income	$ 77,227	$ 93,246	$ 5,043	$ (98,289)	$ 77,227

For the year ended December 31, 2012

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales and service revenues	$ -	$ 1,400,561	$ 29,482	$ -	$ 1,430,043
Cost of services provided and goods sold	-	1,017,001	16,320	-	1,033,321
Selling, general and administrative expenses	22,618	175,166	10,872	-	208,656
Depreciation	942	24,179	888	-	26,009
Amortization	1,924	2,588	-	-	4,512
Other operating expenses	-	1,126	-	-	1,126
Total costs and expenses	25,484	1,220,060	28,080	-	1,273,624
Income/(loss) from operations	(25,484)	180,501	1,402	-	156,419
Interest expense	(13,999)	(666)	(58)	-	(14,723)
Other (expense)/income - net	17,626	(16,992)	3,489	-	4,123
Income/(loss) before income taxes	(21,857)	162,843	4,833	-	145,819
Income tax (provision)/benefit	7,001	(61,794)	(1,722)	-	(56,515)
Equity in net income of subsidiaries	104,160	3,190	-	(107,350)	-
Net income	$ 89,304	$ 104,239	$ 3,111	$ (107,350)	$ 89,304

For the year ended December 31, 2011

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales and service revenues	$ -	$ 1,328,425	$ 27,545	$ -	$ 1,355,970
Cost of services provided and goods sold	-	955,628	14,856	-	970,484
Selling, general and administrative expenses	21,895	172,368	7,997	-	202,260
Depreciation	945	23,496	806	-	25,247
Amortization	1,756	2,496	-	-	4,252
Total costs and expenses	24,596	1,153,988	23,659	-	1,202,243
Income/(loss) from operations	(24,596)	174,437	3,886	-	153,727
Interest expense	(13,177)	(587)	(124)	-	(13,888)
Other (expense)/income - net	16,507	(16,591)	801	-	717
Income/(loss) before income taxes	(21,266)	157,259	4,563	-	140,556
Income tax (provision)/benefit	6,564	(59,407)	(1,734)	-	(54,577)
Equity in net income of subsidiaries	100,681	3,001	-	(103,682)	-
Net income	$ 85,979	$ 100,853	$ 2,829	$ (103,682)	$ 85,979

For the year ended December 31, 2013	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Cash Flow from Operating Activities:				
Net cash provided by operating activities	$ 9,592	$ 138,580	$ 2,675	$ 150,847
Cash Flow from Investing Activities:				
Capital expenditures	(160)	(28,272)	(892)	(29,324)
Business combinations, net of cash acquired	-	(2,257)	-	(2,257)
Other sources/(uses) - net	(66)	255	46	235
Net cash used by investing activities	(226)	(30,274)	(846)	(31,346)
Cash Flow from Financing Activities:				
Purchases of treasury stock	(92,911)	-	-	(92,911)
Capital stock surrendered to pay taxes on stock-based compensation	(5,348)	-	-	(5,348)
Dividends paid to shareholders	(14,148)	-	-	(14,148)
Proceeds from exercise of stock options	17,122	-	-	17,122
Realized excess tax benefit on share based compensation	3,982	-	-	3,982
Debt issuance costs	(1,108)	-	-	(1,108)
Change in cash overdrafts payable	4,578	(15,993)	-	(11,415)
Change in intercompany accounts	106,082	(105,764)	(318)	-
Other sources - net	48	-	(836)	(788)
Net cash provided/(used) by financing activities	18,297	(121,757)	(1,154)	(104,614)
Net increase in cash and cash equivalents	27,663	(13,451)	675	14,887
Cash and cash equivalents at beginning of year	56,342	4,674	8,515	69,531
Cash and cash equivalents at end of period	$ 84,005	$ (8,777)	$ 9,190	$ 84,418

For the year ended December 31, 2012	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Cash Flow from Operating Activities:				
Net cash provided by operating activities	$ 5,267	$ 123,431	$ 3,070	$ 131,768
Cash Flow from Investing Activities:				
Capital expenditures	(285)	(33,944)	(1,023)	(35,252)
Business combinations, net of cash acquired	-	(5,900)	-	(5,900)
Other sources/(uses) - net	178	312	(22)	468
Net cash used by investing activities	(107)	(39,532)	(1,045)	(40,684)
Cash Flow from Financing Activities:				
Purchases of treasury stock	(60,624)	-	-	(60,624)
Capital stock surrendered to pay taxes on stock-based compensation	(4,098)	-	-	(4,098)
Dividends paid to shareholders	(13,026)	-	-	(13,026)
Proceeds from exercise of stock options	12,310	-	-	12,310
Realized excess tax benefit on share based compensation	3,435	-	-	3,435
Change in cash overdrafts payable	(5,338)	7,262	-	1,924
Change in intercompany accounts	85,935	(85,065)	(870)	-
Other sources - net	118	-	327	445
Net cash provided/(used) by financing activities	18,712	(77,803)	(543)	(59,634)
Net increase in cash and cash equivalents	23,872	6,096	1,482	31,450
Cash and cash equivalents at beginning of year	32,470	(1,422)	7,033	38,081
Cash and cash equivalents at end of period	$ 56,342	$ 4,674	$ 8,515	$ 69,531

For the year ended December 31, 2011	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Cash Flow from Operating Activities:				
Net cash provided by operating activities	$ 12,444	$ 158,159	$ 3,740	$ 174,343
Cash Flow from Investing Activities:				
Capital expenditures	(73)	(28,145)	(1,374)	(29,592)
Business combinations, net of cash acquired	-	(3,664)	-	(3,664)
Other sources/(uses) - net	(191)	(730)	63	(858)
Net cash used by investing activities	(264)	(32,539)	(1,311)	(34,114)
Cash Flow from Financing Activities:				
Purchases of treasury stock	(143,970)	-	-	(143,970)
Capital stock surrendered to pay taxes on stock-based compensation	(3,916)	-	-	(3,916)
Dividends paid to shareholders	(12,538)	-	-	(12,538)
Proceeds from exercise of stock options	8,036	-	-	8,036
Realized excess tax benefit on share based compensation	3,854	-	-	3,854
Debt issuance costs	(2,657)	-	-	(2,657)
Change in cash overdrafts payable	9	(835)	-	(826)
Change in intercompany accounts	126,040	(124,636)	(1,404)	-
Other sources - net	108	-	(156)	(48)
Net cash used by financing activities	(25,034)	(125,471)	(1,560)	(152,065)
Net increase/(decrease) in cash and cash equivalents	(12,854)	149	869	(11,836)
Cash and cash equivalents at beginning of year	45,324	(1,571)	6,164	49,917

Cash and cash equivalents at end of period	$ 32,470	$ (1,422)	$ 7,033	$ 38,081

UNAUDITED SUMMARY OF QUARTERLY RESULTS

Chemed Corporation and Subsidiary Companies

(in thousands, except per share and footnote data)

For the Year Ended December 31, 2013	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Total service revenues and sales	$ 366,641	$ 357,198	$ 340,886	$ 348,604	$ 1,413,329
Gross profit (excluding depreciation)	$ 102,334	$ 101,839	$ 97,702	$ 102,646	$ 404,521
Income from operations	$ 38,852	$ 25,892	$ 29,210	$ 39,440	$ 133,394
Interest expense	(4,094)	(3,697)	(3,500)	(3,744)	(15,035)
Other income/(expense)--net	1,706	1,696	(90)	2,158	5,470
Income before income taxes	36,464	23,891	25,620	37,854	123,829
Income taxes	(14,186)	(9,283)	(8,188)	(14,945)	(46,602)
Net income (a)	$ 22,278	$ 14,608	$ 17,432	$ 22,909	$ 77,227
Earnings Per Share (a)					
Net income	$ 1.20	$ 0.79	$ 0.96	$ 1.31	$ 4.24
Average number of shares outstanding	18,522	18,606	18,184	17,492	18,199
Diluted Earnings Per Share (a)					
Net income	$ 1.17	$ 0.77	$ 0.94	$ 1.28	$ 4.16
Average number of shares outstanding	19,000	18,966	18,522	17,899	18,585

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Pretax (cost)/benefit:					
Stock option expense	$ (1,491)	$ (1,612)	$ (1,629)	$ (1,310)	$ (6,042)
Noncash impact of change in accounting for convertible debt	(2,091)	(2,132)	(2,174)	(2,216)	(8,613)
Long-term incentive compensation	(612)	(494)	(55)	(140)	(1,301)
Expenses of severance arrangements	(302)	-	-	-	(302)
Loss on extinguishment of debt	(465)	-	-	-	(465)
Acquisition expenses	(1)	(20)	(21)	(20)	(62)
Litigation Settlement	-	(14,760)	(11,461)	-	(26,221)
Expenses related to litigation settlements	(141)	(567)	(443)	(274)	(1,425)
Expenses related to securities litigation	(2)	(1)	(1)	(105)	(109)
Expenses/(cost recovery) related to the Office of Inspector General investigation	(1,039)	(996)	591	(705)	(2,149)
Total	$ (6,144)	$ (20,582)	$ (15,193)	$ (4,770)	$ (46,689)
After-tax (cost)/benefit:					
Stock option expense	$ (943)	$ (1,020)	$ (1,030)	$ (820)	$ (3,813)
Noncash impact of change in accounting for convertible debt	(1,323)	(1,348)	(1,375)	(1,402)	(5,448)
Long-term incentive compensation	(387)	(313)	(34)	(88)	(822)
Uncertain tax position adjustments	-	-	1,782	-	1,782
Expenses of severance arrangements	(184)	-	-	-	(184)
Loss on extinguishment of debt	(294)	-	-	-	(294)
Acquisition expenses	-	(13)	(12)	(13)	(38)
Litigation Settlement	-	(8,967)	(7,094)	-	(16,061)
Expenses related to litigation settlements	(86)	(344)	(269)	(166)	(865)
Expenses related to securities litigation	(1)	(1)	(1)	(66)	(69)
Expenses/(cost recovery) related to the Office of Inspector General investigation	(644)	(618)	367	(438)	(1,333)
Total	$ (3,862)	$ (12,624)	$ (7,666)	$ (2,993)	$ (27,145)

UNAUDITED SUMMARY OF QUARTERLY RESULTS

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

For the Year Ended December 31, 2012	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Total service revenues and sales	$ 352,943	$ 354,170	$ 354,353	$ 368,577	$ 1,430,043
Gross profit (excluding depreciation)	$ 95,498	$ 96,802	$ 97,743	$ 106,679	$ 396,722
Income from operations	$ 34,977	$ 39,525	$ 35,970	$ 45,947	$ 156,419
Interest expense	(3,617)	(3,672)	(3,743)	(3,691)	(14,723)
Other income/(expense)--net	2,095	(970)	1,840	1,158	4,123
Income before income taxes	33,455	34,883	34,067	43,414	145,819
Income taxes	(13,010)	(13,609)	(13,222)	(16,674)	(56,515)
Net income (a)	$ 20,445	$ 21,274	$ 20,845	$ 26,740	$ 89,304
Earnings Per Share (a)					
Net income	$ 1.08	$ 1.12	$ 1.10	$ 1.44	$ 4.72
Average number of shares outstanding	18,958	18,998	18,960	18,628	18,924
Diluted Earnings Per Share (a)					
Net income	$ 1.06	$ 1.10	$ 1.07	$ 1.40	$ 4.62
Average number of shares outstanding	19,353	19,369	19,404	19,053	19,339

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Pretax (cost)/benefit:					
Stock option expense	$ (1,938)	$ (2,374)	$ (2,397)	$ (1,421)	$ (8,130)
Noncash impact of change in accounting for convertible debt	(1,935)	(1,973)	(2,011)	(2,052)	(7,971)
Costs to shutdown HVAC operations	-	-	(1,126)	-	(1,126)
Acquisition expenses	(15)	(20)	(87)	(66)	(188)
Expenses related to litigation settlements	(647)	(80)	(116)	(173)	(1,016)
Expenses related to securities litigation	-	(197)	(68)	(477)	(742)
Long-term incentive compensation	-	-	-	(360)	(360)
Expenses incurred in connection with the Office of Inspector General investigation	(71)	(195)	(483)	(463)	(1,212)
Total	$ (4,606)	$ (4,839)	$ (6,288)	$ (5,012)	$ (20,745)
After-tax (cost)/benefit:					
Stock option expense	$ (1,225)	$ (1,502)	$ (1,516)	$ (900)	$ (5,143)
Noncash impact of change in accounting for convertible debt	(1,224)	(1,248)	(1,272)	(1,297)	(5,041)
Costs to shutdown HVAC operations	-	-	(649)	-	(649)
Acquisition expenses	(9)	(12)	(53)	(40)	(114)
Expenses related to litigation settlements	(393)	(49)	(70)	(105)	(617)
Expenses related to securities litigation	-	(124)	(44)	(301)	(469)
Long-term incentive compensation	-	-	-	(228)	(228)
Expenses incurred in connection with the Office of Inspector General investigation	(44)	(121)	(300)	(287)	(752)
Total	$ (2,895)	$ (3,056)	$ (3,904)	$ (3,158)	$ (13,013)

SELECTED FINANCIAL DATA

Chemed Corporation and Subsidiary Companies

(in thousands, except per share and footnote data, ratios, percentages and personnel)

	2013	2012	2011	2010	2009
Summary of Operations					
Continuing operations (a)					
Service revenues and sales	**$ 1,413,329**	$ 1,430,043	$ 1,355,970	$ 1,280,545	$ 1,190,236
Gross profit (excluding depreciation)	**404,521**	396,722	385,486	374,529	355,662
Depreciation	**27,698**	26,009	25,247	24,386	21,535
Amortization	**4,690**	4,512	4,252	4,657	6,367
Income from operations	**133,394**	156,419	153,727	143,522	126,345
Income from continuing operations (b)	**77,227**	89,304	85,979	81,831	74,037
Net income (b)	**77,227**	89,304	85,979	81,831	73,784
Earnings per share					
Income from continuing operations	**$ 4.24**	$ 4.72	$ 4.19	$ 3.62	$ 3.30
Net income	**4.24**	4.72	4.19	3.62	3.29
Average number of shares outstanding	**18,199**	18,924	20,523	22,587	22,451
Diluted earnings per share					
Income from continuing operations	**$ 4.16**	$ 4.62	$ 4.10	$ 3.55	$ 3.26
Net income	**4.16**	4.62	4.10	3.55	3.24
Average number of shares outstanding	**18,585**	19,339	20,945	23,031	22,742
Cash dividends per share	**$ 0.76**	$ 0.68	$ 0.60	$ 0.52	$ 0.36
Financial Position--Year-End					
Cash and cash equivalents	**$ 84,418**	$ 69,531	$ 38,081	$ 49,917	$ 112,416
Working capital/(deficit)	**(139,330)**	40,849	5,353	47,455	62,174
Current ratio	**0.62**	1.26	1.04	1.32	1.46
Properties and equipment, at cost less accumulated depreciation	**$ 92,955**	$ 91,934	$ 82,951	$ 79,292	$ 75,358
Total assets	**893,701**	859,626	795,905	830,161	819,470
Long-term debt	**-**	174,890	166,784	159,208	152,127
Stockholders' equity	**448,890**	453,291	413,684	462,049	477,162
Other Statistics					
Capital expenditures	**$ 29,324**	$ 35,252	$ 29,592	$ 25,639	$ 21,496
Number of employees	**13,952**	14,096	13,733	13,058	12,308

(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):

	2013	2012	2011	2010	2009
After-tax benefit/(cost):					
Stock option expense	**$ (3,813)**	$ (5,143)	$ (5,298)	$ (4,909)	$ (5,464)
Noncash impact of change in accounting for convertible debt	**(5,448)**	(5,041)	(4,664)	(4,313)	(3,988)
Long-term incentive compensation	**(822)**	(228)	(1,880)	(2,957)	(3,134)
Litigation settlements	**(16,061)**	-	-	-	-
Expneses related to litigation settlements	**(865)**	(617)	(1,397)	(1,126)	(534)
Expenses incurred in connection with the Office of Inspector General investigation	**(1,333)**	(752)	(737)	(627)	(363)
Acquisition expense	**(38)**	(114)	(75)	(198)	-
Cost to shut down HVAC operations	**-**	(649)	-	-	-
Expenses of securities litigation	**(69)**	(469)	-	-	-
Expenses associated with contested proxy solicitation	**-**	-	-	-	(2,525)
Non-taxable income on certain investments held in deferred compensation trusts	**-**	-	-	-	1,211
Income tax impact of nondeductible losses on investments held in deferred compensation trusts	**-**	-	-	-	(455)
Loss on extinguishment of debt	**(294)**	-	-	-	-
Severance arrangements	**(184)**	-	-	-	-
Uncertain tax position adjustments	**1,782**	-	-	-	-
Total	**$ (27,145)**	$ (13,013)	$ (14,051)	$ (14,130)	$ (15,252)

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
UNAUDITED CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2013
(in thousands)(unaudited)

2013	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Service revenues and sales	$ 1,045,113	$ 368,216	$ -	$ 1,413,329
Cost of services provided and goods sold	813,600	195,208	-	1,008,808
Selling, general and administrative expenses	82,252	102,592	27,674	212,518
Depreciation	18,149	9,014	535	27,698
Amortization	2,102	607	1,981	4,690
Other operating expenses	10,500	15,721	-	26,221
Total costs and expenses	926,603	323,142	30,190	1,279,935
Income/(loss) from operations	118,510	45,074	(30,190)	133,394
Interest expense	(182)	(322)	(14,531)	(15,035)
Intercompany interest income/(expense)	4,288	2,055	(6,343)	-
Other income/(expense)—net	438	(4)	5,036	5,470
Income/(loss) before income taxes	123,054	46,803	(46,028)	123,829
Income taxes	(46,910)	(17,560)	17,868	(46,602)
Net income/(loss)	$ 76,144	$ 29,243	$ (28,160)	$ 77,227

(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	$ -	$ -	$ (6,042)	$ (6,042)
Noncash impact of change in accounting for convertible debt	-	-	(8,613)	(8,613)
Long-term incentive compensation	-	-	(1,301)	(1,301)
Loss on extinguishment of debt	-	-	(465)	(465)
Securities litigation	-	-	(109)	(109)
Litigation settlement costs	(10,500)	(15,721)	-	(26,221)
Expenses related to litigation settlements	-	(1,425)	-	(1,425)
Severance arrangements	-	(302)	-	(302)
Acquisition expense	(58)	(4)	-	(62)
Expenses incurred in connection with the Office of Inspector General investigation	(2,149)	-	-	(2,149)
Total	$ (12,707)	$ (17,452)	$ (16,530)	$ (46,689)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				
Stock option expense	$ -	$ -	$ (3,813)	$ (3,813)
Noncash impact of change in accounting for convertible debt	-	-	(5,448)	(5,448)
Long-term incentive compensation	-	-	(822)	(822)
Loss on extinguishment of debt	-	-	(294)	(294)
Securities litigation	-	-	(69)	(69)
Litigation settlement costs	(6,510)	(9,551)	-	(16,061)
Expenses related to litigation settlements	-	(865)	-	(865)
Severance arrangements	-	(184)	-	(184)
Acquisition expense	(36)	(2)	-	(38)
Expenses incurred in connection with the Office of Inspector General investigation	(1,333)	-	-	(1,333)
Uncertain tax position adjustments	-	-	1,782	1,782
Total	$ (7,879)	$ (10,602)	$ (8,664)	$ (27,145)

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
UNAUDITED CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012
(in thousands)(unaudited)

2012	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Service revenues and sales	$ 1,067,037	$ 363,006	$ -	$ 1,430,043
Cost of services provided and goods sold	831,321	202,000	-	1,033,321
Selling, general and administrative expenses	80,494	102,366	25,796	208,656
Depreciation	17,087	8,397	525	26,009
Amortization	1,956	632	1,924	4,512
Other operating expenses	-	1,126	-	1,126
Total costs and expenses	930,858	314,521	28,245	1,273,624
Income/(loss) from operations	136,179	48,485	(28,245)	156,419
Interest expense	(233)	(433)	(14,057)	(14,723)
Intercompany interest income/(expense)	3,180	1,617	(4,797)	-
Other income/(expense)—net	543	6	3,574	4,123
Income/(loss) before income taxes	139,669	49,675	(43,525)	145,819
Income taxes	(53,092)	(18,770)	15,347	(56,515)
Net income/(loss)	$ 86,577	$ 30,905	$ (28,178)	$ 89,304

(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	$ -	$ -	$ (8,130)	$ (8,130)
Noncash impact of change in accounting for convertible debt	-	-	(7,971)	(7,971)
Long-term incentive compensation	-	-	(360)	(360)
Expenses of class action litigation	-	(1,016)	-	(1,016)
Expenses of securities litigation	-	-	(742)	(742)
Cost to shut down HVAC operations	-	(1,126)	-	(1,126)
Acquisition expense	(15)	(173)	-	(188)
Expenses incurred in connection with the Office of Inspector General investigation	(1,212)	-	-	(1,212)
Total	$ (1,227)	$ (2,315)	$ (17,203)	$ (20,745)

	VITAS	Roto-Rooter	Corporate	Consolidated
After-tax benefit/(cost):				
Stock option expense	$ -	$ -	$ (5,143)	$ (5,143)
Noncash impact of change in accounting for convertible debt	-	-	(5,041)	(5,041)
Long-term incentive compensation	-	-	(228)	(228)
Expenses of class action litigation	-	(617)	-	(617)
Expenses of securities litigation	-	-	(469)	(469)
Cost to shut down HVAC operations	-	(649)	-	(649)
Acquisition expense	(9)	(105)	-	(114)
Expenses incurred in connection with the Office of Inspector General investigation	(752)	-	-	(752)
Total	$ (761)	$ (1,371)	$ (10,881)	$ (13,013)

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
UNAUDITED CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2011
(in thousands)(unaudited)

2011	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Service revenues and sales	$ 986,272	$ 369,698	$ -	$ 1,355,970
Cost of services provided and goods sold	766,732	203,752	-	970,484
Selling, general and administrative expenses	75,698	102,528	24,034	202,260
Depreciation	16,583	8,130	534	25,247
Amortization	1,897	599	1,756	4,252
Total costs and expenses	860,910	315,009	26,324	1,202,243
Income/(loss) from operations	125,362	54,689	(26,324)	153,727
Interest expense	(229)	(358)	(13,301)	(13,888)
Intercompany interest income/(expense)	3,998	2,136	(6,134)	-
Other income/(expense)—net	62	(235)	890	717
Income/(loss) before income taxes	129,193	56,232	(44,869)	140,556
Income taxes	(48,835)	(21,353)	15,611	(54,577)
Net income/(loss)	$ 80,358	$ 34,879	$ (29,258)	$ 85,979

(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	$ -	$ -	$ (8,376)	$ (8,376)
Noncash impact of change in accounting for convertible debt	-	-	(7,374)	(7,374)
Long-term incentive compensation	-	-	(3,012)	(3,012)
Expenses of class action litigation	-	(2,299)	-	(2,299)
Acquisition expense	(147)	26	-	(121)
Expenses incurred in connection with the Office of Inspector General investigation	(1,188)	-	-	(1,188)
Total	$ (1,335)	$ (2,273)	$ (18,762)	$ (22,370)

	VITAS	Roto-Rooter	Corporate	Consolidated
After-tax benefit/(cost):				
Stock option expense	$ -	$ -	(5,298)	(5,298)
Noncash impact of change in accounting for convertible debt	-	-	(4,664)	(4,664)
Long-term incentive compensation	-	-	(1,880)	(1,880)
Expenses of class action litigation	-	(1,397)	-	(1,397)
Acquisition expense	(91)	16	-	(75)
Expenses incurred in connection with the Office of Inspector General investigation	(737)	-	-	(737)
Total	$ (828)	$ (1,381)	$ (11,842)	$ (14,051)

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, 2013, 2012 and 2011 (in thousands except percentages and per share amounts):

		2013		2012		2011
Consolidated service revenues and sales	**$**	**1,413,329**	$	1,430,043	$	1,355,970
Consolidated net income	**$**	**77,227**	$	89,304	$	85,979
Diluted EPS	**$**	**4.16**	$	4.62	$	4.10
Adjusted net income	**$**	**104,372**	$	102,317	$	100,030
Adjusted diluted EPS	**$**	**5.62**	$	5.29	$	4.78
Adjusted EBITDA	**$**	**206,850**	$	201,455	$	197,273
Adjusted EBITDA as a % of revenue		**14.6%**		14.1%		14.5%

Adjusted net income, adjusted diluted EPS, earnings before interest, taxes and depreciation and amortization ("EBITDA") and Adjusted EBITDA are not measures derived in accordance with GAAP. We use Adjusted EPS as a measure of earnings for certain long-term incentive awards. We also use adjusted EBITDA to determine compliance with certain debt covenants. We provide non-GAAP measures 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 non-GAAP measures should not be considered in isolation or as a substitute for comparable measures presented in accordance with GAAP. Reconciliations of our non-GAAP measures are presented in tables following the Critical Accounting Policies section.

2013 versus 2012

The decrease in consolidated service revenues and sales from 2012 to 2013 was a result of a 1.4% increase at Roto-Rooter offset by a 2.1% decrease at VITAS. The increase at Roto-Rooter was driven by a 3.5% increase in price and mix shift offset by a decrease in job count of 1.9%. The decrease in service revenues at VITAS was a result of Medicare reimbursement rates including the effects of sequestration, declining approximately 0.5%, a $7.0 million net Medicare cap charge (compared to a reversal of $1.7 million in the same period of 2012) and level of care mix shift offset by increased average daily census ("ADC") of 1.7%. Consolidated net income decreased 13.5% over prior year mainly as a result of the $16.1 million (after tax) in litigation settlements as well as the lower revenue at VITAS. Diluted EPS decreased mainly as a result of the decrease in earnings offset by an decrease in the number of shares outstanding. Adjusted EBITDA as a percent of revenue increased 2.7% from 2012 to 2013 mainly as a result of improved gross margins at Roto-Rooter.

2012 versus 2011

The increase in consolidated service revenues and sales from 2011 to 2012 was driven by a 8.2% increase at VITAS offset by a 1.8% decrease at Roto-Rooter. The increase at VITAS was the result of an increase in ADC of 5.5%, driven by an increase in admissions of 6.0%, increased discharges of 4.6% and Medicare price increases of approximately 2.5%. The decrease at Roto-Rooter was driven by a decrease in job count of 3.3% offset by a 2.1% increase in price and mix shift. Consolidated net income increased 3.9% over prior year mainly as a result of the increase in revenues. Diluted EPS increased as the result of increased earnings and a decrease in the number of shares outstanding. Adjusted EBITDA increased 2.1% from 2011 to 2012 mainly as a result of increased earnings.

While we have significant operations in the Northeast, we had no material casualty losses or business interruption as a result of Hurricane Sandy.

Impact of Current Market Conditions

We expect Roto-Rooter to achieve full-year 2014 revenue growth of 3.0% to 4.0%. This revenue estimate is based upon increased job pricing of approximately 2.0% and job count growth essentially equal to the prior year. Adjusted EBITDA margin for 2014 is estimated in the range of 19.0% to 20.0%.

We expect VITAS to achieve full-year 2014 revenue growth, prior to Medicare cap, of 1.0% to 3.0%. Admissions in 2014 are estimated to increase 3.0% to 4.0%. This revenue estimate includes the April 1, 2013 reduction in hospice reimbursement rates of 2.0% offset by the October 1, 2013, 0.9% increase in average hospice reimbursement rates for a net decrease of 1.1%. We also expect VITAS to have estimated Medicare contractual billing limitations of $5.6 million. Adjusted EBITDA margin, prior to Medicare cap, for 2014 is estimated to be in the range of 14.5% to 15.0%.

LIQUIDITY AND CAPITAL RESOURCES

Significant factors affecting our cash flows during 2013 and financial position at December 31, 2013, include the following:

- Our operations generated cash of $150.8 million.
- We repurchased $92.9 million of our stock in the open market using cash on hand.
- We spent $29.3 million on capital expenditures.
- $2.3 million cash paid for business acquisitions.
- An increase in dividends paid of 8.6% to $14.1 million.
- A $6.6 million increase in current deferred income taxes due mainly to the accrual of litigation settlements.
- A reclass of our convertible notes from long-term to current as they are due in May 2014.
- A $31.1 million increase in other current liabilities primarily due to unpaid litigation settlements and the Medicare cap liability.

The ratio of total debt to total capital was 29.0% at December 31, 2013, compared with 27.8% at December 31, 2012. Our current ratio was 0.62 and 1.26 at December 31, 2013 and 2012, respectively. The decrease in the current ratio is a primarily a result of the reclass of long term debt from long term liabilities to short term liabilities during 2013.

Collectively, the 2013 Credit Agreement 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, 2013. The restrictive financial covenants are defined in the 2013 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, 2013, as follows:

Description	Requirement	Chemed
Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA)	< 3.50 to 1.00	1.07 to 1.00
Fixed Charge Coverage Ratio (Consolidated Free Cash Flow/Consolidated Fixed Charges	> 1.50 to 1.00	2.25 to 1.00
Annual Operating Lease Commitment	< $30.0 million	$26.5 million

Our 2013 Credit Agreement replaced the 2011 Credit Agreement in January 2013. We forecast to be in compliance with all debt covenants through fiscal 2014.

We have issued $35.0 million in standby letters of credit as of December 31, 2013, mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of December 31, 2013, we have approximately $315.0 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the $150 million expansion feature. We believe our cash flow from operating activities and our unused eligible lines of credit are sufficient to fund our obligations, including the convertible notes due May 2014, 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 2013, 2012 and 2011 are summarized as follows (in millions):

	For the Years Ended December 31,		
	2013	2012	2011
Net cash provided by operating activities	**$ 150.8**	$ 131.8	$ 174.3
Capital expenditures	**(29.3)**	(35.3)	(29.6)
Operating cash after capital expenditures	**121.5**	96.5	144.7
Purchase of treasury stock in the open market	**(92.9)**	(60.5)	(143.9)
Business combinations	**(2.3)**	(5.9)	(3.7)
Dividends paid	**(14.1)**	(13.0)	(12.5)
Proceeds from exercise of stock options	**17.1**	12.3	8.0
Increase/(decrease) in cash overdraft payable	**(11.4)**	1.9	(0.8)
Other--net	**(3.0)**	0.2	(3.6)
Increase/(decrease) in cash and cash equivalents	**$ 14.9**	$ 31.5	$ (11.8)

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. 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. Additionally, we retained liability for casualty insurance claims for Service America and Patient Care that were incurred prior to the respective disposal dates, 2005 and 2002. In the aggregate, we believe these allowances and accruals are adequate as of December 31, 2013. 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, 2013, 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.

In February 2010, Chemed and Roto-Rooter were named as defendants in a lawsuit filed in the United States District Court for the Eastern District of New York, *Anthony Morangelli, et al., v. Chemed Corp. and Roto-Rooter Services Co.,* No. 10-CV-00876 (BMC). The named plaintiffs, current and former technicians employed by Roto-Rooter who were paid on a commission basis, asserted against Chemed and Roto-Rooter claims for violation of the Fair Labor Standards Act ("FLSA") and claims for violations of the labor laws of multiple states. In June 2013 the parties reached an agreement to settle the case for $14.3 million plus applicable payroll taxes ($9.0 million after tax). As such, $14.8 million is recorded as other operating expense in the year ended December 31, 2013 Statement of Income and is included in accrued legal at December 31, 2013.

VITAS is party to a class action lawsuit filed in the Superior Court of California, Los Angeles County in September 2006 by Bernadette Santos, Keith Knoche and Joyce White, *Bernadette Santos, et al. v. VITAS Healthcare Corporation of California*, BC359356. This case alleges failure to pay overtime and failure to provide meal and rest periods to a purported class of California admissions nurses, chaplains and sales representatives. The case seeks payment of penalties, interest and Plaintiffs' attorney fees. In December 2009, the trial court denied Plaintiffs' motion for class certification. In July 2011, the Court of Appeals affirmed denial of class certification on the travel time, meal and rest period claims, and reversed the trial court's denial on the off-the-clock and sales representation exemption claims. Plaintiffs filed an appeal of this decision. In September 2012, in response to an order of reconsideration, the Court of Appeals reiterated its previous rulings. In March 2013, the Court granted summary judgment dismissing the sales representatives' claims as they are exempt employees. In October 2013 we reached agreement, to settle the case for $10.3 million plus applicable payroll taxes ($6.5 million aftertax). As such, $10.5 million is recorded as other operating expense in the year ended December 31, 2013 Statement of Income. This settlement was paid in 2013.

On January 12, 2012, a putative class action lawsuit was filed in the U.S. District Court for the Southern District of Ohio against the Company, Kevin McNamara, David Williams, and Timothy O'Toole, *In re Chemed Corp. Securities Litigation*, Civil Action No. 1:12-cv-28 (S.D. Ohio). On June 18, 2012, an amended complaint was filed alleging violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 against all Defendants, and violation of Section 20(a) of the Securities Exchange Act of 1934 against Messrs. McNamara, Williams, and O'Toole. The suit's allegations concern the VITAS hospice segment of the Company's business. Plaintiffs seek, on behalf of a putative class of purchasers of Chemed Capital Stock, compensatory damages in an unspecified amount and attorneys' fees and expenses, arising from Defendants' alleged failure to disclose an alleged fraudulent scheme at VITAS to enroll ineligible hospice patients and to fraudulently obtain payments from the federal government. Defendants filed motions to dismiss the amended complaint on August 17, 2012, which were pending when the parties reached an agreement to settle the action. On June 7, 2013, following the filing of U.S. v. VITAS, discussed below, Plaintiffs filed a motion for leave to file a second amended complaint. Defendants opposed this motion. On September 16, 2013, Plaintiffs executed a Settlement Term Sheet with Defendants, reaching an agreement in principle to settle this case subject to Court approval. On February 6, 2014, Plaintiffs, on behalf of a putative class of purchasers of Chemed Capital Stock between February 15, 2010 and May 2, 2013, inclusive, executed a stipulation of settlement with defendants, agreeing to settle this case in full and with prejudice, and to provide Defendants with full releases of all claims that are or could have been asserted by Plaintiffs in exchange for payment of $6.0 million by our insurer into a settlement fund for the benefit of the putative settlement class ("Settlement"). The Settlement has been recorded as an accrual and offsetting prepaid in the accompanying Balance Sheet. This Settlement is subject to Court approval. Defendants agreed to enter into this Settlement in order to eliminate the burden, expense and distraction of further litigation.

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

Also in June 2011, the U.S. Attorney provided the Company with a partially unsealed *qui tam* complaint filed under seal in the U.S. District Court for the Northern District of Illinois, *United States, et al. ex rel. Spottiswood v. Chemed Corp.*, 1:07-cv-4566 ("*Spottiswood*"). In April 2012, the complaint was unsealed. The U.S. Attorney and Attorney General for the State of Illinois filed notices in April and May 2012, respectively, stating that they had decided not to intervene in the case at that time but indicating that they continue to investigate the allegations. Plaintiff filed an amended complaint in November 2012. The complaint asserts violations of the federal False Claims Act and the Illinois Whistleblower Reward and Protection Act based on allegations that VITAS fraudulently billed Medicare and Medicaid for providing unwarranted continuous care services. The suit was brought by Laura Spottiswood, a former part-time pool registered nurse at VITAS, against Chemed, VITAS, and a VITAS affiliate. The complaint was served on the defendants on April 12, 2013. On May 29 and June 4, 2013, respectively, the Court granted the government's motion to partially intervene in *Spottiswood* and in *Urick* on the allegations that VITAS submitted or caused to be submitted false or fraudulent claims for continuous care and routine home care on behalf of certain ineligible Medicare beneficiaries. The Court also transferred them to the U.S. District Court for the Western District of Missouri under docket Nos. 4:13-cv-505 and 4:13-cv-563, respectively.

On May 2, 2013, the government filed a False Claims Act complaint against the Company and certain of its hospice-related subsidiaries in the U.S. District Court for the Western District of Missouri, *United States v. VITAS Hospice Services, LLC, et al.*, No. 4:13-cv-00449-BCW (the "2013 Action"). Prior to that date, the Company received various subpoenas from the U.S. Department of Justice and OIG that have been previously disclosed. The 2013 Action alleges that, since at least 2002, VITAS, and since 2004, the Company, submitted or caused the submission of false claims to the Medicare program by (a) billing Medicare for continuous home care services when the patients were not eligible, the services were not provided, or the medical care was inappropriate, and (b) billing Medicare for patients who were not eligible for the Medicare hospice benefit because they did not have a life expectancy of six months or less if their illnesses ran their normal course. This complaint seeks treble damages, statutory penalties, and the costs of the action, plus interest. On August 1, 2013, the government filed its First Amended Complaint in the 2013 Action. The First Amended Complaint changed and supplemented some of the allegations, but did not otherwise expand the causes of action or the nature of the relief sought against VITAS. The defendants filed a motion to dismiss on September 24, 2013.

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

On September 25, 2013, the Court granted a joint motion by the government, the relators, and VITAS to consolidate the *Spottiswood*, *Urick*, and *Gonzales* complaints with the 2013 Action. As a result, the First Amended Complaint will govern the consolidated claims brought by the United States and the relators for all purposes. The relators and VITAS have stipulated that certain non-intervened claims will not be pursued by the relators.

VITAS has also received document subpoenas in related state matters. In February 2010, VITAS received a civil investigative demand ("CID") from the Texas Attorney General seeking documents from January 1, 2002 through the date of the CID, and interrogatory responses in connection with an investigation of possible fraudulent submission of Medicaid claims for non-qualifying patients and fraudulent shifting of costs from VITAS to the State of Texas and the United States. The CID requested similar information sought by prior Department of Justice subpoenas, including policy and procedure manuals and information concerning Medicare and Medicaid billing, patient statistics and sales and marketing practices, together with information concerning record-keeping and retention practices, and medical records concerning 117 patients. In September 2010, VITAS received a second CID from the Texas Attorney General seeking additional documents concerning business plans and results, revocation forms for certain patients, and electronic documents of 10 current and former employees. In July 2012, VITAS received an investigative subpoena from the Florida Attorney General seeking documents previously produced in the course of prior government investigations as well as, for the period January 1, 2007 through the date of production, billing records and procedures; information concerning business results, plans, and strategies; documents concerning patient eligibility for hospice care; and certain information concerning employees and their compensation.

In November 2013, two shareholder derivative lawsuits were filed against the Company's current and former directors, as well as certain of its officers both of which are covered by the Company's commercial insurance. On November 6, 2013, KBC Asset Management NV filed suit in the United States Distrct Court for the District of Delaware, *KBC Asset Management NV, derivatively on behalf of Chemed Corp. v. McNamara, et al.*, No. 13 Civ. 1854 (LPS) (D. Del.). It sued Kevin McNamara, Joel Gemunder, Patrick Grace, Thomas Hutton, Walter Krebs, Andrea Lindell, Thomas Rice, Donald Saunders, Arthur Tucker, Jr., George Walsh III, Frank Wood, Timothy O'Toole, David Williams and Ernest Mrozek, together with the Company as nominal defendant. Plaintiff alleges that since at least 2004, Chemed, through VITAS, has submitted or caused the submission of false claims to Medicare. The suit alleges a claim for breach of fiduciary duty against the individual defendants, and seeks (a) a declaration that the individual defendants breached their fiduciary duties to the Company; (b) an order requiring those defendants to pay compensatory damages, restitution and exemplary damages, in unspecified amounts, to the Company; (c) an order directing the Company to implement new policies and procedures; and (d) costs and disbursements incurred in bringing the action, including attorneys' fees.

On November 14, 2013, Mildred A. North filed suit in the United States District Court for the Southern District of Ohio, *North, derivatively on behalf of Chemed Corp. v. Kevin McNamara, el al.*, No. 13 Civ. 833 (MDB) (S.D. Ohio). She sued Kevin McNamara, David Williams, Timothy O'Toole, Joel Gemunder, Patrick Grace, Walter Krebs, Andrea Lindell, Thomas Rice, Donald Saunders, George Walsh III, Frank Wood and Thomas Hutton, together with the Company as nominal defendant. Plaintiff alleges that, between February 2010 and the present, the individual defendants breached their fiduciary duties as officers and directors of Chemed by, among other things, (a) allegedly causing VITAS to submit improper and ineligible claims to Medicare and Medicaid; and (b) allegedly misrepresenting the state of Chemed's internal controls. The suit alleges claims for breach of fiduciary duty, abuse of control and gross mismanagement against the individual defendants. The complaint also alleges unjust enrichment and insider trading against Messrs. McNamara, Williams and O'Toole. Plaintiff seeks (a) a declaration that the individual defendants breached their fiduciary duties to the Company; (b) an order requiring those defendants to pay compensatory damages, restitution and exemplary damages, in unspecified amounts, to the Company; (c) an order directing the Company to implement new policies and procedures; and (d) costs and disbursements incurred in bringing the action, including attorneys' fees.

On December 20, 2013, Plaintiff in the *North* action filed a motion before the Judicial Panel on Multidistrict Litigation seeking centralized treatment of her action and the *KBC* action in the U.S. District Court for the Southern District of Ohio. Defendants in both cases, as well as Plaintiff KBC, opposed that motion, consistent with Chemed's By-law 8.07, which requires all derivative suits brought in Chemed's name to proceed in federal or state court in Delaware. The MDL Panel has yet to rule on that motion. On January 29, 2014 Defendants filed motions to transfer *North* to Delaware under 28 U.S.C § 1404 and to stay the case until after resolution of that motion and the MDL motion.

The Company intends to defend vigorously against the allegations in each of the above lawsuits. The Company had a net recovery for these OIG investigations, due to a one-time insurance reimbursement of $1.0 million for certain legal costs, for the year ended December 31, 2013. The net costs to comply with these investigations were $1.3 million, $752,000 and $737,000 for the years ending December 31, 2013, 2012 and 2011, respectively. Regardless of the outcome of any of the preceding matters, responding to the subpoenas and dealing with the various regulatory agencies and opposing parties can adversely affect us through defense costs, potential payments, diversion of management time, and related publicity. Although the Company intends to defend them vigorously, there can be no assurance that those suits will not have a material adverse effect on the Company.

CONTRACTUAL OBLIGATIONS

The table below summarizes our debt and contractual obligations as of December 31, 2013 (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	1,753	1,753	-	-	-
Operating lease obligations	75,214	26,497	31,323	12,991	4,403
Purchase obligations (b)	41,758	41,758	-	-	-
Other long-term obligations (c)	51,671	-	4,661	4,662	42,348
Total contractual cash obligations	$ 357,352	$ 256,964	$ 35,984	$ 17,653	$ 46,751

(a) Represents the face value of the obligation.
(b) Purchase obligations primarily consist of accounts payable at December 31, 2013.
(c) Other long-term obligations comprise largely excess benefit obligations.

RESULTS OF OPERATIONS

2013 Versus 2012 – Consolidated Results

Set forth below are the year-to-year changes in the components of the statement of operations relating to income for 2013 versus 2012 (in thousands, except percentages):

	Favorable/(Unfavorable) Amount	Percent
Service revenues and sales		
VITAS	$ (21,924)	(2) %
Roto-Rooter	5,210	1
Total	(16,714)	(1)
Cost of services provided and goods sold	24,513	2
Selling, general and administrative expenses	(3,862)	(2)
Depreciation	(1,689)	(6)
Amortization	(178)	(4)
Other operating expenses	(25,095)	(2,229)
Income from operations	(23,025)	(15)
Interest expense	(312)	(2)
Other income - net	1,347	33
Income before income taxes	(21,990)	(15)
Income taxes	9,913	18
Net income	$ (12,077)	(14)

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

	Amount	Percent
Routine homecare	$ 12,959	2%
Continuous care	(16,654)	(10)
General inpatient	(9,526)	(8)
Medicare cap	(8,703)	(511)
	$ (21,924)	(2)

The decrease in VITAS' revenue from 2012 to 2013 was a result of increased ADC of 1.7%, offset by a Medicare reimbursement rate decrease and level of car mix shift. For 2013, VITAS recorded a net Medicare cap charge of $7.0 million related to eliminating the Medicare Cap billing limitation recorded in the fourth quarter of 2012 offset by two programs' projected Medicare Cap liability. This compares to $1.7 million in additional revenue recorded in 2012. The ADC increase was driven by a 2.4% increase in routine homecare offset by a decrease of 8.2% in continuous care and a 5.2% decrease 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 Roto-Rooter segment revenue increase is the result of the following (dollars in thousands):

	Amount	Percent
Plumbing	$ (308)	-%
Sewer and drain cleaning	2,783	2
Contractor operations	4,508	16
HVAC operations	(1,109)	(100)
Other	(664)	(3)
	$ 5,210	1

Plumbing revenues for 2013 were essentially flat compared to 2012 due to a 1.8% decrease in the number of jobs performed offset by a 1.7% increase in the average price per job. Sewer and drain cleaning revenues increased from 2012 as a result of a 4.2% increase in average price per job offset by a 1.4% decrease in the number of jobs performed. Contractor operations revenue increased 15.8% as a result of performance by recent acquisitions and higher job count. HVAC operations decreased as a result of the shut-down of Roto-Rooter's one remaining HVAC operation, as discussed in Footnote 21.

The consolidated gross margin was 28.6% in 2013 versus 27.7% in 2012. On a segment basis, VITAS' gross margin was 22.2% in 2013 and 22.1% in 2012. Roto-Rooter's gross margin was 47.0% in 2013 and 44.4% in 2012. The increase in Roto-Rooter's gross margin is the result of higher revenue, lower healthcare and casualty insurance costs and reduced field operating expenses.

Selling, general and administrative expenses ("SG&A") for 2013 comprise (in thousands):

	2013	2012
SG&A expenses before long-term incentive compensation, OIG expenses and the impact of market gains of deferred compensation plans	**$ 204,086**	$ 203,585
Long-term incentive compensation	**1,301**	360
Expenses related to OIG investigation	**2,149**	1,212
Impact of market value gains on liabilities held in deferred compensation trusts	**4,982**	3,499
Total SG&A expenses	**$ 212,518**	$ 208,656

Depreciation expense increased $1.7 million (6.5%) in 2013 mainly due to an increase in capital expenditures in the prior year.

Other operating expenses comprise (in thousands):

		2013		2012
Litigation settlement of VITAS segment (a)	$	10,500	$	-
Settlements of Roto-Rooter segment (b)		15,721		-
Severance and other operating costs related to closing Roto-Rooter's HVAC business		-		1,126
Total other operating expenses	$	26,221	$	1,126

(a) Santos claims discussed in Note 10.
(b) Morangelli claims discussed in Note 10 and estimated settlement of certain customer claims.

Interest expense increased $312,000 (2.1%) from 2012 to 2013 primarily as a result of the increase in amortization of bond discount expense and the loss on extinguishment of debt resulting from the replacement of the previous Credit Agreement in January 2013.

Other income-net for 2013 and 2012 comprise (in thousands):

		2013		2012
Market value gains on assets held in deferred compensation trusts	$	4,982	$	3,499
Loss on disposal of property and equipment		(320)		(347)
Interest income		847		809
Other		(39)		162
Total other income	$	5,470	$	4,123

Our effective tax rate was 37.6% in 2013 compared to 38.8% for 2012. This is a result of a $1.8 million credit related to the expiration of tax statutes for uncertain tax positions recorded in prior years.

Net income for both periods include the following aftertax adjustments that increased/ (reduced) aftertax earnings (in thousands):

		2013		2012
VITAS				
Costs associated with the OIG investigation	$	(1,333)	$	(752)
Litigation settlements		(6,510)		-
Acquisition expense		(36)		(9)
Roto-Rooter				
Expenses related to litigation settlements		(865)		(617)
Litigation settlements		(9,551)		-
Acquisition expense		(2)		(105)
Expenses of severance arrangements		(184)		-
Costs to shut down HVAC operations		-		(649)
Corporate				
Long-term incentive compensation		(822)		(228)
Noncash impact of change in accounting of convertible debt		(5,448)		(5,041)
Costs related to securities litigation		(69)		(469)
Stock option expense		(3,813)		(5,143)
Uncertain tax position adjustments		1,782		-
Loss on extinguishment of debt		(294)		-
Total	$	(27,145)	$	(13,013)

2013 Versus 2012 – Segment Results

The change in net income for 2013 versus 2012 is due to (in thousands, except percentages):

	Increase/(Decrease)	
	Amount	Percent
VITAS	$ (10,433)	(12) %
Roto-Rooter	(1,662)	(5)
Corporate	18	-
	$ (12,077)	(14)

RESULTS OF OPERATIONS

2012 Versus 2011 – Consolidated Results

Set forth below are the year-to-year changes in the components of the statement of income for 2012 versus 2011 (in thousands, except percentages):

	Favorable/(Unfavorable)	
	Amount	Percent
Service revenues and sales		
VITAS	$ 80,765	8%
Roto-Rooter	(6,692)	(2)
Total	74,073	6
Cost of services provided and goods sold	(62,837)	(6)
Selling, general and administrative expenses	(6,396)	(3)
Depreciation	(762)	(3)
Amortization	(260)	(6)
Other operating expenses	(1,126)	-
Income from operations	2,692	2
Interest expense	(835)	(6)
Other income - net	3,406	475
Income before income taxes	5,263	4
Income taxes	(1,938)	(4)
Net income	$ 3,325	4

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

	Amount	Percent
Routine homecare	$ 60,118	8%
Continuous care	13,597	9
General inpatient	3,752	3
Medicare cap	3,298	207
	$ 80,765	8

The increase in VITAS' revenue from 2011 to 2012 was a result of increased ADC of 5.5% driven by an increase in admissions of 6.0%, increased discharges of 4.6% and Medicare price increases of approximately 2.5%. The ADC increase was driven by a 5.6% increase in routine homecare, an increase of 5.6% in continuous care, and a 2.9% 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 Medicare cap amount recorded in 2012 relates to the reversal of $2,578,000, net of Medicare cap liability for the 2012 measurement period recorded in the fourth quarter of 2011 offset by $873,000 in Medicare cap liability for three programs' projected 2013 measurement period liability.

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

	Amount	Percent
Plumbing	$ (5,053)	(3) %
Sewer and drain cleaning	(432)	-
Contractor operations	1,811	7
HVAC operations	(2,301)	(67)
Other	(717)	(3)
	$ (6,692)	(2)

Plumbing revenues for 2012 decreased from 2011 due to a 1.8% decrease in the number of jobs performed and a 0.04% decrease in the average price per job. Sewer and drain cleaning revenues for 2012 were flat over 2011 due to a 4.1% increase in the average price per job offset by a 3.9% decrease in the number of jobs performed. Contractor operations revenue increased 6.8% as a result of performance by recent acquisitions and higher job count. HVAC operations decreased as a result of the shut-down of Roto-Rooter's one remaining HVAC operation, as discussed in Footnote 21.

The consolidated gross margin was 27.7% in 2012 versus 28.4% in 2011. On a segment basis, VITAS' gross margin was 22.1% in 2012 and 22.3% in 2011. Roto-Rooter's gross margin was 44.4% in 2012 and 44.9% in 2011. The decrease in Roto-Rooter's gross margin is primarily the result of increased medical costs combined with lower revenue.

Selling, general and administrative expenses ("SG&A") for 2012 comprise (in thousands):

	2012	2011
SG&A expenses before long-term incentive compensation, OIG expenses and the impact of market gains of deferred compensation plans	**$ 204,045**	$ 197,712
Long-term incentive compensation	**360**	3,012
Expenses related to OIG investigation	**752**	737
Impact of market value gains on liabilities held in deferred compensation trusts	**3,499**	799
Total SG&A expenses	**$ 208,656**	$ 202,260

Normal salary increases and revenue related expenses between periods account for the 3.2% increase in SG&A expenses before long-term incentive compensation, OIG expenses and the impact of market gains of deferred compensation plans

Depreciation expense increased $762,000 (3.0%) in 2012 mainly due to an increase in capital expenditures.

Interest expense increased $835,000 (6.0%) from 2011 to 2012 primarily as a result of the increase in amortization of bond discount expense.

Other income-net for 2012 and 2011 comprise (in thousands):

	2012	2011
Market value gains on assets held in deferred compensation trusts	**$ 3,499**	$ 799
Loss on disposal of property and equipment	**(347)**	(441)
Interest income	**809**	426
Other	**162**	(67)
Total other income	**$ 4,123**	$ 717

Our effective tax rate was 38.8% in 2012 which is flat when compared to 2011.

Net income for both periods include the following aftertax adjustments that increased/ (reduced) aftertax earnings (in thousands):

	2012	2011
VITAS		
Costs associated with the OIG investigation	**$ (752)**	$ (737)
Acquisition expense	**(9)**	(91)
Roto-Rooter		
Costs related to litigation settlements	**(617)**	(1,397)
Acquisition expense	**(105)**	16
Costs to shut down HVAC operations	**(649)**	-
Corporate		
Long-term incentive compensation	**(228)**	(1,880)
Noncash impact of change in accounting of convertible debt	**(5,041)**	(4,664)
Costs related to securities litigation	**(469)**	-
Stock option expense	**(5,143)**	(5,298)
Total	**$ (13,013)**	$ (14,051)

<u>2012 Versus 2011 – Segment Results</u>

The change in net income for 2012 versus 2011 is due to (in thousands, except percentages):

	Increase/(Decrease)	
	Amount	**Percent**
VITAS	$ 6,219	8%
Roto-Rooter	(3,974)	(11)
Corporate	1,080	4
	$ 3,325	4

<u>CRITICAL ACCOUNTING POLICIES</u>

<u>Revenue Recognition</u>

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, 2013.

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. The majority of our programs have expected cushion in excess of 75% of the inpatient cap for the 2013 measurement period. 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 in one of two ways based on a provider by provider election. The “stream lined” method compares 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.

The “proportional” method compares 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 the Medicare provider number between September 28 and September 27 of the following year with the product of the per beneficiary cap amount and a pro-rated number of Medicare beneficiaries receiving hospice services from that program during the same period. The pro-rated number of Medicare beneficiaries is calculated based on the ratio of days the beneficiary received hospice services during the measurement period to the total number of days the beneficiary received hospice services.

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. 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, 2013, we reversed Medicare cap liability for amounts recorded in the fourth quarter of 2012 for three programs’ projected 2013 measurement period liability. During 2013 this reversal was offset by the Medicare cap liability for two programs’ projected 2014 measurement period liability. For the year ended December 31, 2012, we recorded pretax charges in continuing operations for the estimated Medicare cap liability for three programs’ projected liability through year end for the 2013 measurement period. This amount was subsequently reversed during the 2013 fiscal year due to increased admission. Shown below is the Medicare cap liability activity for the years end December 31, 2013 and 2012 (in thousands):

	2013	2012
Beginning Balance January 1,	**$ 1,261**	$ 2,965
2014 measurement period	**3,881**	-
2013 measurement period	**3,181**	874
2012 measurement period	**-**	(2,578)
2010 measurement period	**(63)**	-
Ending Balance December 31,	**$ 8,260**	$ 1,261

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 $750,000. 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 $1,000,000. 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, 2013, 2012 and 2011 were net, pretax debits/(credits) of ($1,487,000), ($790,000) and ($17,000) 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 would increase or decrease the accrued insurance liability at December 31, 2013, by $2.4 million or 5.8%. 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 $3.0 million as of December 31, 2013.

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 due to insufficient taxable income within the carryback or carryforward period available under the tax laws. 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 date of our annual goodwill and indefinite-lived intangible asset impairment analysis is October 1. The VITAS trade name is considered to have an indefinite life. We also 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. Certificates of Need (CON), which are required in certain states for hospice operations, are generally granted without expiration and thus, we believe them to be indefinite-lived assets subject to impairment testing.

We consider that RRC, RRSC and VITAS are appropriate reporting units for testing goodwill impairment. 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.

In July 2012, the FASB issued Accounting Standards Update "ASU" No. 2012-02 – Intangibles Goodwill and Other which provides additional guidance related to the impairment testing of indefinite-lived intangible assets. ASU No. 2012–02 allows an entity to first assess qualitative factors to determine whether it is necessary to perform further impairment testing. The revised guidance was effective for fiscal years beginning after September 15, 2012 but early adoption was permitted. Our impairment testing date is October 1 of each year and we adopted the new guidelines in the third quarter of 2012

We completed our qualitative analysis for impairment of goodwill and our indefinite-lived intangible assets as of October 1, 2013. Based on our assessment, we do not believe that it is more likely than not that our reporting units' or indefinite-lived assets fair values are less than their carrying values.

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. We estimate the fair value and derived service periods of market based awards using a Monte Carlo simulation approach in a risk neutral framework. 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. 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. We disclose material loss contingencies that probable but not reasonably estimable and those that are at least reasonably possible.

Consolidating Summary of Adjusted EBITDA

Chemed Corporation and Subsidiary Companies

(in thousands) **2013**	**VITAS**	**Roto-Rooter**	**Corporate**	**Chemed Consolidated**
Net income/(loss)	**$ 76,144**	**$ 29,243**	**$ (28,160)**	**$ 77,227**
Add/(deduct):				
Interest expense	**182**	**322**	**14,531**	**15,035**
Income taxes	**46,910**	**17,560**	**(17,868)**	**46,602**
Depreciation	**18,149**	**9,014**	**535**	**27,698**
Amortization	**2,102**	**607**	**1,981**	**4,690**
EBITDA	**143,487**	**56,746**	**(28,981)**	**171,252**
Add/(deduct):				
Intercompany interest/(expense)	**(4,288)**	**(2,055)**	**6,343**	**-**
Interest income	**(750)**	**(41)**	**(56)**	**(847)**
Expenses related to OIG investigation	**2,149**	**-**	**-**	**2,149**
Acquisition expenses	**58**	**4**	**-**	**62**
Litigation Settlement	**10,500**	**15,721**	**-**	**26,221**
Expenses related to litigation settlements	**-**	**1,425**	**-**	**1,425**
Advertising cost adjustment	**-**	**(1,166)**	**-**	**(1,166)**
Expenses of severance arrangements	**-**	**302**	**-**	**302**
Stock option expense	**-**	**-**	**6,042**	**6,042**
Long-term incentive compensation	**-**	**-**	**1,301**	**1,301**
Expenses related to securities litigation	**-**	**-**	**109**	**109**
Adjusted EBITDA	**$ 151,156**	**$ 70,936**	**$ (15,242)**	**$ 206,850**

2012	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	$ 86,577	$ 30,905	$ (28,178)	$ 89,304
Add/(deduct):				
Interest expense	233	433	14,057	14,723
Income taxes	53,092	18,770	(15,347)	56,515
Depreciation	17,087	8,397	525	26,009
Amortization	1,956	632	1,924	4,512
EBITDA	158,945	59,137	(27,019)	191,063
Add/(deduct):				
Intercompany interest/(expense)	(3,180)	(1,617)	4,797	-
Interest income	(703)	(30)	(76)	(809)
Legal expenses of OIG investigation	1,212	-	-	1,212
Acquisition expenses	15	173	-	188
Expenses of securities litigation	-	-	742	742
Long-term incentive compensation	-	-	360	360
Expenses of class action litigation	-	1,016	-	1,016
Cost to shut down HVAC operations	-	1,126	-	1,126
Stock option expense	-	-	8,130	8,130
Advertising cost adjustment	-	(1,573)	-	(1,573)
Adjusted EBITDA	$ 156,289	$ 58,232	$ (13,066)	$ 201,455

2011	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	$ 80,358	$ 34,879	$ (29,258)	$ 85,979
Add/(deduct):				
Interest expense	229	358	13,301	13,888
Income taxes	48,835	21,353	(15,611)	54,577
Depreciation	16,583	8,130	534	25,247
Amortization	1,897	599	1,756	4,252
EBITDA	147,902	65,319	(29,278)	183,943
Add/(deduct):				
Intercompany interest/(expense)	(3,998)	(2,136)	6,134	-
Interest income	(295)	(40)	(91)	(426)
Legal expenses of OIG investigation	1,188	-	-	1,188
Long-term incentive compensation	-	-	3,012	3,012
Expenses of class action litigation	-	2,299	-	2,299
Acquisition expenses	147	(26)	-	121
Stock option expense	-	-	8,376	8,376

Advertising cost adjustment	-	(1,240)	-	(1,240)
Adjusted EBITDA	$ 144,944	$ 64,176	$ (11,847)	$ 197,273

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
RECONCILIATION OF ADJUSTED NET INCOME
(in thousands, except per share data)(unaudited)

	For the Years Ended December 31,		
	2013	2012	2011
Net income as reported	**$ 77,227**	$ 89,304	$ 85,979
Add/(deduct) after-tax cost of:			
Non-cash expense of change in accounting for convertible	**5,448**	5,041	4,664
Stock option expense	**3,813**	5,143	5,298
Expenses related to OIG investigation	**1,333**	752	737
Expenses realated to litigation settlements	**865**	617	1,397
Long-term incentive compensation	**822**	228	1,880
Expenses related to securities litigation	**69**	469	-
Acquisition expenses	**38**	114	75
Litigation settlements	**16,061**	-	-
Uncertain tax position adjustments	**(1,782)**	-	-
Loss on extinguishment of debt	**294**	-	-
Expenses of severance arrangements	**184**	-	-
Expenses to shut down HVAC operations	**-**	649	-
Adjusted net income	**$ 104,372**	$ 102,317	$ 100,030
Earnings Per Share As Reported			
Net income	**$ 4.24**	$ 4.72	$ 4.19
Average number of shares outstanding	**18,199**	18,924	20,523
Diluted Earnings Per Share As Reported			
Net income	**$ 4.16**	$ 4.62	$ 4.10
Average number of shares outstanding	**18,585**	19,339	20,945
Adjusted Earnings Per Share			
Net income	**$ 5.74**	$ 5.41	$ 4.87
Average number of shares outstanding	**18,199**	18,924	20,523
Adjusted Diluted Earnings Per Share			
Net income	**$ 5.62**	$ 5.29	$ 4.78
Average number of shares outstanding	**18,585**	19,339	20,945

The "Footnotes to Financial Statements" are integral parts of this financial information.

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

OPERATING STATISTICS	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Year Ended December 31, 2013	Year Ended December 31, 2012
Net revenue ($000)				
Homecare	**$ 198,325**	$ 201,266	**$ 791,735**	$ 778,776
Inpatient	**25,788**	28,013	**104,968**	114,494
Continuous care	**35,943**	44,581	**155,409**	172,063
Total before Medicare cap allowance	**$ 260,056**	$ 273,860	**$ 1,052,112**	$ 1,065,333
Medicare cap allowance	**(3,838)**	(873)	**(6,999)**	1,704
Total	**$ 256,218**	$ 272,987	**$ 1,045,113**	$ 1,067,037
Net revenue as a percent of total before Medicare cap allowance				
Homecare	**76.3%**	73.5%	**75.2%**	73.1%
Inpatient	**9.9**	10.2	**10.0**	10.7
Continuous care	**13.8**	16.3	**14.8**	16.2
Total before Medicare cap allowance	**100.0**	100.0	**100.0**	100.0
Medicare cap allowance	**(1.5)**	(0.3)	**(0.7)**	0.2
Total	**98.5%**	99.7%	**99.3%**	100.2%
Average daily census (days)				
Homecare	**10,353**	10,352	**10,449**	10,016
Nursing home	**2,862**	3,007	**2,911**	3,025
Routine homecare	**13,215**	13,359	**13,360**	13,041
Inpatient	**433**	451	**438**	462
Continuous care	**537**	655	**585**	637
Total	**14,185**	14,465	**14,383**	14,140
Total Admissions	**15,445**	16,004	**62,858**	63,777
Total Discharges	**15,396**	16,120	**62,999**	63,196
Average length of stay (days)	**82.6**	80.3	**81.6**	78.8
Median length of stay (days)	**15.0**	15.0	**15.0**	15.0
ADC by major diagnosis				
Neurological	**38.9%**	33.9%	**37.7%**	34.2%
Cancer	**17.2**	17.2	**17.1**	17.5
Cardio	**14.3**	11.1	**13.2**	11.3
Respiratory	**7.8**	6.5	**7.6**	6.6
Other	**21.8**	31.3	**24.4**	30.4
Total	**100.0%**	100.0%	**100.0%**	100.0%
Admissions by major diagnosis				
Neurological	**21.3%**	18.5%	**20.7%**	19.1%
Cancer	**33.8**	33.3	**33.2**	33.3
Cardio	**13.4**	11.3	**13.1**	11.1
Respiratory	**8.7**	8.3	**9.2**	8.2
Other	**22.8**	28.6	**23.8**	28.3
Total	**100.0%**	100.0%	**100.0%**	100.0%
Direct patient care margins				
Routine homecare	**53.8%**	54.4%	**52.6%**	52.5%
Inpatient	**5.0**	10.5	**5.5**	11.6
Continuous care	**16.1**	18.3	**15.9**	19.2
Homecare margin drivers (dollars per patient day)				
Labor costs	**$ 53.85**	$ 53.28	**$ 55.17**	$ 55.03
Drug costs	**7.54**	7.61	**7.54**	8.09
Home medical equipment	**6.38**	6.68	**6.61**	6.83
Medical supplies	**2.99**	2.78	**2.97**	2.77
Inpatient margin drivers (dollars per patient day)				
Labor costs	**$ 334.50**	$ 330.20	**$ 338.51**	$ 323.09
Continuous care margin drivers (dollars per patient day)				
Labor costs	**$ 589.51**	$ 583.46	**$ 591.54**	$ 574.64
Bad debt expense as a percent of revenues	**0.9%**	0.6%	**0.9%**	0.8%
Accounts receivable --				
Days of revenue outstanding- excluding unapplied Medicare payments	**36.5**	35.9	**N.A.**	N.A.
Days of revenue outstanding- including unapplied Medicare payments	**25.9**	25.2	**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.

<u>EXHIBIT 14</u>
CHEMED CORPORATION
POLICIES ON BUSINESS ETHICS

It is Chemed's policy to conduct business in accordance with the highest standards of business ethics. This requires that all directors and employees of the Company and its subsidiaries conduct all business in compliance with the law, avoid actual or potential conflicts of interest and act at all times with honesty and integrity.

The purpose of this communication is to provide guidance on the Company's policies on business ethics.

1. Conflicts of Interest

Under established principles of law and Company policy, every director, officer and employee of Chemed Corporation, its divisions and subsidiaries, has a duty of undivided loyalty to the Company. Accordingly, if confronted with a choice between the interests of the Company and personal economic interests or obligations or duties to others, you must act in the interests of the Company.

While it is not possible to describe all situations of potential or actual conflict, the following categories are listed as guidance:

1. Receipt of compensation, gifts, entertainment, discounts, services, loans or any thing of value from any competitor of the Company and its subsidiaries or from suppliers, customers or others with current or anticipated business dealings with the Company or its subsidiaries (other than the receipt of minor gifts, entertainment, discounts, services or things of value not exceeding $100 per year from any one source).

2. Retention of a stock or other financial interest in any firm described in (1) above. This would not usually apply to the investment in securities of a publicly held corporation unless the investor's judgment in transactions involving the Chemed organization might be affected by factors such as the size of the investment or the amount of business done with the Company and its subsidiaries. As a general rule, a 2% aggregate interest by a person, members of his family and associated individuals or companies would not present a problem.

3. Acting as a director, officer, consultant, agent, employee or in some other capacity for a person or firm described in (1). In addition, there are prohibitions on interlocking directorships and offices in certain situations. To ensure compliance, all directors and officers of the Company should inform the Secretary prior to accepting any other directorship or office.

4. Having an interest in any transaction involving the Company or its subsidiaries where the interest may affect the objective and impartial representation of the Company.

5. Disclosure or other misuse of confidential information.

6. Speculation or dealing in goods, commodities or products purchased, sold or otherwise dealt in or required by the Company and its subsidiaries.

7. Conversion to personal benefit of a business opportunity in which the Company or a subsidiary might reasonably be expected to be interested, without first making it available to the Company or subsidiary. For instance, you might learn of a business, an invention or other property for sale which the Company or a subsidiary might be interested in acquiring. If you fail to disclose this to the Company and acquire the property, you may be legally accountable to the Company for profits realized.

8. Trading in securities of the Company or its subsidiaries for quick profits or speculation. The Company encourages its directors, officers and employees to invest in the Company's securities as part of a long-range investment plan in order to stimulate their interest in the success of the Company. However, the Company discourages short-term trading since it might create pressures inconsistent with the impartial exercise of judgment on the Company's behalf. In addition, the law requires all directors and certain officers of the Company to pay the Company any profits on purchases/sales made in any six month period.

9. Interests, relationships or activities of the type described above taken by (a) family members, (b) any trust or estate in which either the employee or family members have a substantial interest, or (c) any partnership, corporation or other firm in which you are a partner, director or officer in which you or your family members have a substantial interest.

Where a conflict or potential conflict develops, you should disclose promptly and fully to your superior all pertinent facts. In many instances, the only consequences will be your disqualification from participating in a particular transaction, or a finding that the condition which appeared questionable is not significant. In other cases, it may prove advisable for you to dispose of the outside interest or for other measures to be taken.

2. Disclosure

The Company requires full, fair, accurate, timely and understandable disclosure in all reports and documents it files with or submits to the Securities and Exchange Commission and in other public communications it makes.

All books and records of the Company and its subsidiaries shall be kept in such a way as to fully and fairly reflect all transactions. Clear, open and frequent communication among all management levels and personnel on significant accounting, financial and operating matters will assist in achieving this, as well as help reach our operating goals.

No employee shall take any action to circumvent the Company's system of internal controls.

Administrative and accounting controls in place shall assure that financial and other reports are accurately and reliably prepared, and fully and fairly disclose pertinent information.

3. Clawbacks

Effective August 2, 2013, upon a restatement of the Company's financial results (other than due to a change in applicable accounting rules), if the Compensation Committee determines that an officer of the Company subject to Section 16(b) of the Securities Exchange Act of 1934 has engaged in intentional or unlawful misconduct which materially contributed to the need for such restatement, the Committee will review all performance-based compensation awarded to or earned by such officer during the three years preceding such restatement. Performance-based compensation means bonuses and other incentive and equity compensation awarded, the amount, payment, or vesting of which is calculated, either in total or in part, based on Company performance criteria measured during any part of the period covered by the restatement. If the Committee determines that the amount of any such performance-based compensation would have been lower if it had been calculated based on the restated financial statement, the Committee may seek to recover any such excess amount.

4. Legal Compliance

The Company and its subsidiaries require compliance with all applicable governmental laws, rules and regulations.

5. Improper Payments and Bookings

The Company has a policy against the making of any improper, disguised or questionable payments or book entries of any kind. There are also numerous laws imposing civil and criminal penalties for such acts, not only upon the Company, but the individuals as well.

As guidance, directors and employees may not:

1. Use, directly or indirectly, any funds or other assets of the Company or any subsidiary for any unlawful purpose.

2. Use, directly or indirectly, any funds or other assets of the Company or any subsidiary for political contributions of any kind or in any form (whether cash, other property, services or the furnishing of facilities) except in compliance with the Company's Policies on Political Activities, or establish or administer any committee or other organization to raise or make political contributions.

3. Establish or maintain undisclosed or unrecorded bank accounts or other funds or assets of the Company or any subsidiary.

4. Make or permit any false, misleading or artificial entries on books or records of the Company or any subsidiary. All transactions shall be appropriately authorized, recorded and evidenced by proper supporting documentation.

5. Make any payment on behalf of the Company or any of its subsidiaries with the intention or understanding that it is to be used for a purpose other than that described by the supporting documents.

6. Make any payment in violation of exchange control or tax regulations.

7. Give gifts or favors to anyone with current or anticipated business dealings with the Company or its subsidiaries, if it could reasonably be interpreted for the purpose of improperly influencing a business decision.

8. Offer or make any payment or gift, directly or indirectly, to any governmental official to assist the Company in obtaining, retaining or directing business.

6. Reporting Violations

Any violation of these Policies on Business Ethics shall be promptly reported in writing to any employee's supervisor, to the Company's Secretary, or to the Company's Internal Auditor. You may also report them to the Company's Theft and Fraud Hotline, 1-877-888-0003, 24 hours a day, 7 days a week.

The Company will investigate any reported violations and may take appropriate disciplinary action. The Company forbids retaliation against those who in good faith report violations of these Policies on Business Ethics.

7. Accountability for Adherence to Policies

Violations of these Policies on Business Ethics, even in the first instance, may result in disciplinary action up to and including termination of employment.

If you have any questions at any time concerning the Policies, discuss them with your superior, the Internal Auditor, or a person designated by the head of your division or subsidiary.

CERTIFICATE

I, , certify that I have read the foregoing Policies on Business Ethics and will comply to the best of my knowledge and ability.

I understand that violating the Policies may result in disciplinary action up to and including termination of my employment.

I acknowledge my duty to advise my supervisor, the Company's Secretary, or Internal Auditor, of any violations of these Policies. I understand I may also do this by calling the Theft and Fraud Hotline, 1-877-888-0003.

Division or Unit Employed By	Signature
Title or Position	Date

EXHIBIT 21
SUBSIDIARIES OF CHEMED CORPORATION

The following is a list of subsidiaries of the Company as of December 31, 2012: 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, 2012.

All of the majority owned companies listed below are included in the consolidated financial statements as of December 31, 2012.

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

Nurotoco of Massachusetts, Inc. III (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 Services Company; 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 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 RT, Inc. (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.)

Puerto Rico – VITAS Healthcare Corporation (Puerto Rico, 100% 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 on Form S-8 (Nos. 002- 87202, 002-80712, 033-65244, 333-118714, 333-87071, 333-134107, and 333-167733) of Chemed Corporation of our report dated February 27, 2014 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the 2013 Annual Report to Stockholders of Chemed Corporation, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 27, 2014 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Cincinnati, Ohio
February 27, 2014

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, 2013, 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 20, 2014

/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, 2013, 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 21, 2014

/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, 2013, 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 21, 2014

/s/ Thomas C. Hutton
Thomas C. Hutton

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, 2013, 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 18, 2014

/s/ Thomas P. Rice
Thomas P. Rice

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, 2013, 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 19, 2014

/s/ Donald E. Saunders
Donald E. Saunders

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, 2013, 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 18, 2014

/s/ George J. Walsh III

George J. Walsh III

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, 2013, 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 21, 2014

/s/ Frank E. Wood
Frank E. Wood

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, 2013, 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 20, 2014

/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, 2013, 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 18, 2014

/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 27, 2014

/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 27, 2014

/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 27, 2014

/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, 2013 ("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 27, 2014

/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, 2013 ("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 27, 2014

/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, 2013 ("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 27, 2014

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