

# CHEMED

2000 ANNUAL REPORT

Providing

Essential

SERVICES

to

*Home Owners*

and *Businesses*



Chemed Corporation, headquartered in Cincinnati, offers essential repair and maintenance services to home owners and businesses through two major subsidiaries, as well as home healthcare services through a third subsidiary. Chemed Capital Stock is publicly traded on the New York Stock Exchange under the symbol CHE.



Roto-Rooter Inc. is North America's largest provider of plumbing repair and drain cleaning services. Through its network of company operations, independent contractors, and franchisees, Roto-Rooter serves residential and commercial customers in the United States, Canada, and six overseas territories.



Service America provides major-appliance and heating, ventilating, and air-conditioning (HVAC) repair services to contract customers in Florida and Arizona and is rapidly growing its presence in the retail repair, replacement, and maintenance market as well.



Patient Care delivers home healthcare services, focusing on personal care provided by its staff of professionally trained home health aides. With a major presence in the New York-New Jersey-Connecticut region and operations in Georgia, Illinois, Kentucky, Maryland, Ohio, Virginia, and Washington, D.C., Patient Care is among the largest homecare providers in the United States.



**CONTENTS**

**Financial Highlights . . . . . 1**  
 Core EPS increase 16% in 2000 on revenue growth of 10% to \$500 million.

**Letter to Shareholders . . . . . 2-3**  
 Chemed enters its 30th anniversary year led by superior results from Roto-Rooter and prepared for further growth.

**Discussion with Management . . . . . 4-6**  
 Management delivers on its strategy and focuses on executing its growth plans.

**Operations Review . . . . . 7-10**  
 Chemed's major operations furnish high-quality residential, commercial, and healthcare services.

**Financial Review . . . . . 11-35**

**Officers and Directors . . . . . 36**

**Corporate Information . . . . . IBC\***  
 Capital stock price data, how to contact Chemed Investor Relations and the company's transfer agents, and other relevant information for shareholders and preferred security holders.

\* Inside back cover

# Financial Highlights

Chemed Corporation and Subsidiary Companies

For the Years Ended December 31,	2000	1999	Change
Service Revenues and Sales . . . . .	<b>\$500,685,000</b>	\$453,593,000	10 %
Income Before Capital Gains . . . . .	<b>\$18,323,000</b>	\$16,736,000	9 %
Net Income <sup>(a)</sup> . . . . .	<b>\$20,584,000</b>	\$19,696,000	5 %
Earnings Per Share			
Income Before Capital Gains . . . . .	<b>\$1.86</b>	\$1.60	16 %
Net Income <sup>(a)</sup> . . . . .	<b>\$2.09</b>	\$1.88	11 %
Average Number of Shares Outstanding . . . . .	<b>9,833,000</b>	10,470,000	(6)%
Dividends Per Share . . . . .	<b>\$ .40</b>	\$2.12	(81)%
Number of Shareholders . . . . .	<b>3,850</b>	4,864	(21)%
Number of Employees . . . . .	<b>7,591</b>	7,817	(3)%
Return on Average Equity . . . . .	<b>10.0%</b>	9.1%	.9 pt.

(a) Amounts include aftertax gains from sales of investments of \$2,261,000, or \$.23 per share, in 2000 and \$2,960,000, or \$.28 per share, in 1999.

## BUSINESS HIGHLIGHTS

- Roto-Rooter Inc. achieved outstanding results in 2000, increasing its net income by 38% on a 16% increase in revenues and completing three franchise acquisitions.
- Service America boosted revenues in its thriving retail sales and service business by 17% while advancing long-term operating initiatives expected to promote future bottom-line growth.
- Patient Care Inc. improved its financial results throughout 2000, achieving a 6% revenue increase.

We are keeping our promise to focus on growth. Rather than paying a high dividend, we are investing in Chemed's core businesses and executing our strategy to become the premier provider of services to home owners and businesses. As a result, your company is gaining recognition in the financial world.

## FINANCIAL RESULTS

For the year ended December 31, 2000, Chemed's earnings from continuing operations before capital gains rose 16% to \$1.86 per share from \$1.60 in 1999. Net income of \$2.09 per share in 2000 included aftertax capital gains from sales of investments of \$.23 per share. In 1999, net income of \$1.88 per share likewise included gains of \$.28 per share.

Significantly, earnings before capital gains, interest, taxes, depreciation, and amortization (EBITDA) for 2000 reached a substantial \$59.3 million, an increase of 14% over 1999. Service revenues and sales grew to \$500.7 million, up 10% over 1999's \$453.6 million. It is important to note that, at nearly \$60 million, EBITDA represents an impressive 12% of Chemed's annual revenues.

## OPERATIONS

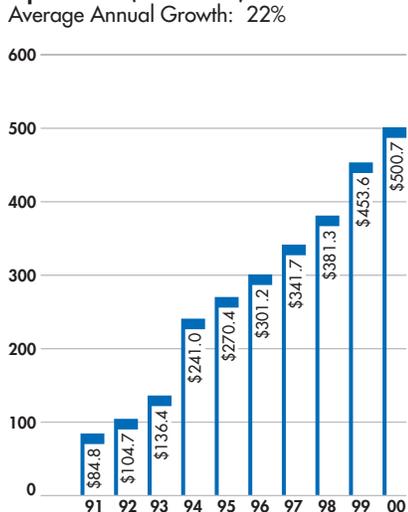
Roto-Rooter Inc., Chemed's largest subsidiary, leveraged a 16% increase in 2000 revenues into a 38% increase in net income versus 1999. Net income reached \$20.0 million in 2000, nearly double net income just two years ago. Operating profit in 2000 grew 39% to \$36.6 million. Revenues at Roto-Rooter

rose to \$281.1 million from \$242.8 million in 1999.

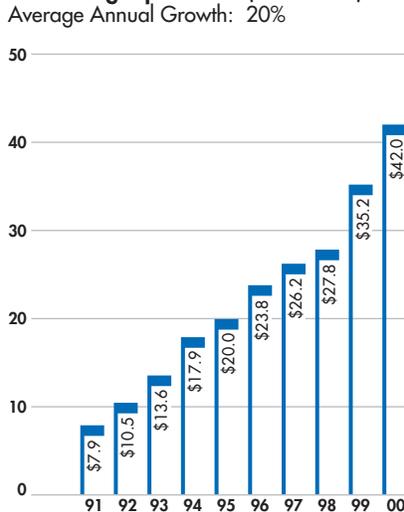
During 2000, Roto-Rooter completed three franchise acquisitions, contributing \$9.1 million to the year's revenues. Excluding acquisitions made during 1999 and 2000, net income, operating profit, and revenues grew on a unit-for-unit basis by 37%, 34%, and 11%, respectively.

Fueling Roto-Rooter's net income growth during 2000 was a 15% increase in plumbing revenues, coupled with a 22% increase in drain cleaning revenues, accomplished through strategic, competitive pricing initiatives and improved gross margins. Further, Roto-Rooter broadened its sales of equipment and products to the plumbing and drain cleaning industry, as well as increased sales of drain care

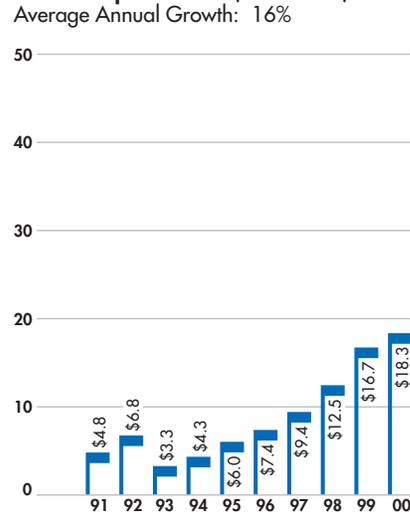
**Revenues from Continuing Operations** (in millions)  
Average Annual Growth: 22%



**Operating Profit from Continuing Operations** (in millions)  
Average Annual Growth: 20%



**Income from Continuing Operations Before Capital Gains** (in millions)\*  
Average Annual Growth: 16%



\* Excludes acquisition expenses and other nonrecurring charges.

products by technicians to customers.

Service America, Chemed's provider of major-appliance and HVAC service, increased revenues 17% in its retail sales and service business in 2000. This growth was offset by a planned reduction in contract sales due to the elimination of unprofitable contracts from its customer base. Thus, total revenues of \$74.2 million in 2000 were essentially even with 1999 revenues. During 2000, Service America was impacted by rapidly rising labor and fuel costs, which, with the planned reduction in contract revenues and investments in critical infrastructure, restricted earnings. Even so, Service America is on target to generate sustained income growth in the years ahead.

Patient Care Inc. generated \$137.1 million in revenues in 2000, up 6% over 1999 revenues. This revenue increase was achieved at a time when many home health agencies saw declining revenues as a result of Medicare's interim payment system. This system, in place since 1997, has caused many providers to exit the industry, as they were unable to operate profitably. Patient Care, in spite of these difficult conditions, earned \$2.1 million in 2000. Going forward, Patient Care expects to benefit from a new, more favorable reimbursement



**Edward L. Hutton (right), Chairman & Chief Executive Officer, and Kevin J. McNamara, President**

system, coupled with the ever-growing demand for homecare services.

#### **IN MEMORIAM**

On a personal note, Chemed mourns the loss of three longtime associates in 2000. Director Emeritus Herman B Wells, chancellor of Indiana University, passed away in March, and Director Emeritus Neal Gilliatt, retired vice chairman of The Interpublic Group of Companies Inc., died unexpectedly in September. Finally, we were saddened by the untimely death of former Roto-Rooter President and CEO William R. Griffin on December 13. We extend our sympathy to their families.

#### **OUTLOOK**

It is a great pleasure to report to you Chemed's results for 2000. We accomplished excellent growth in our major

operating business, Roto-Rooter. Roto-Rooter and Service America provide essential repair services to our principal residential and commercial markets. Patient Care serves a critical need for high-quality home health care. We believe the best way to build shareholder value is to focus on our repair service businesses, particularly Roto-Rooter, as you will read in the next sections of this report. With Chemed approaching its 30th anniversary as a public company, we see a bright future ahead.

Edward L. Hutton  
Chairman & Chief Executive Officer

Kevin J. McNamara  
President

# Discussion with Management

## DELIVERING GROWTH

What a difference a year makes. A year ago, the “new economy” and “dot-coms” were all the rage, and a business as mundane as repair services just couldn’t attract investor attention. Then came the tech stock meltdown,



**Roto-Rooter Inc.:** (l-r) Rick L. Arquilla, President & Chief Operating Officer, Roto-Rooter Services Company; Gary H. Sander, Senior Vice President, Roto-Rooter Services Company; Spencer S. Lee, Chairman & Chief Executive Officer, Roto-Rooter Inc.; David P. Williams, Senior Vice President & Chief Financial Officer, Roto-Rooter Inc.; Gary C. Burger, President, Roto-Rooter Corporation

and investors looked for value, proving that businesses still need viable strategies and still need to produce earnings. As 2000 ended, Chemed gained renewed investor attention. Why?

Though its operations have changed throughout the past 30 years—in fact, adapting to the ever-changing economy—Chemed has never wavered from its founding strategy to invest in recession-resistant, people-oriented businesses. That strategy has served us well. In 2000, Chemed delivered strong results, with core earnings per share

growing 16% on top of 29% per-share growth in 1999. Total core earnings have grown at a rate of 16% per annum since 1991.

In order to free cash to expand our operating businesses, in 2000, we reduced quarterly dividends from a

rate of \$.53 per share to \$.10 per share.

Further, we offered a new class of Convertible Trust Preferred Securities, paying an annual distribution of \$2 per security, to Chemed’s shareholders. Approximately 2,000 record and street-name holders participated in this exchange, and more

than 575,000 shares of Chemed

Capital Stock were tendered. These two actions reduced Chemed’s dividend obligation by \$18 million annually, enabling us to deploy this cash into our operating businesses, particularly Roto-Rooter.

Roto-Rooter remains the centerpiece of Chemed’s operations,

representing 56% of 2000 revenues and, more important, 87% of our operating profit. Roto-Rooter operates in the highly fragmented commercial and residential repair-service industry and is the largest provider of plumbing repair and drain cleaning services in North America. Still, Roto-Rooter has ample room to grow internally and to take market share from its competitors.

Now, let’s focus on Roto-Rooter’s acquisition strategy of repurchasing franchises. Company ownership enables Roto-Rooter and, ultimately, Chemed to realize 100% of the revenues and profits generated by these operations, rather than limiting revenues and profits to only those derived from franchise fees and product and equipment sales.

During January 2000, Roto-Rooter acquired two major franchises. These



**Service America Systems Inc.:** (l-r) Vivian M. Psinakis, Senior Vice President & Chief Financial Officer; John M. Mount, President & Chief Executive Officer; Christopher J. Heaney, Senior Vice President, Operations & Systems Development; Richard E. Hill, Senior Vice President, Sales & Marketing



**Chemed Corporate Management:** (back, left - right) David G. Sparks, Vice President; James H. Devlin, Vice President; David J. Lohbeck, Vice President; Thomas C. Hutton, Vice President; Arthur V. Tucker, Jr., Vice President & Controller; (front, l-r) Timothy S. O'Toole, Executive Vice President & Treasurer; Rick L. Arquilla, President & Chief Operating Officer of Roto-Rooter Services Company; Naomi C. Dallob, Vice President & Secretary; Kevin J. McNamara, President; Edward L. Hutton, Chairman & Chief Executive Officer; Sandra E. Laney, Senior Vice President & Chief Administrative Officer; Spencer S. Lee, Executive Vice President; John M. Mount, Vice President; (not pictured) Paul C. Voet, Executive Vice President

operations, in Las Vegas and Seattle, serve a population base of 3.3 million in two of the fastest-growing areas of the country. Together, these acquisitions generated \$9.0 million in revenues for Roto-Rooter in 2000. A third franchise, in Temple, Texas, was acquired in August and serves a population of 365,000.

Since 1996, Roto-Rooter has acquired 16 franchise operations at an investment of \$34.5 million. These franchise acquisitions have performed above expectations, and together, they've added an estimated \$6.1 million of incremental operating profit to Roto-Rooter's coffers since their

respective acquisitions.

Looking ahead, Roto-Rooter's primary acquisition targets are now franchises serving territories with populations greater than 800,000. These include several locations in the Western and Midwestern United States. These large franchise territories serve a population of 30 million people. Other targeted franchise acquisitions cover 12 million people, giving

Roto-Rooter the opportunity to serve a total of 42 million additional people through company-owned operations. In aggregate, these potential acquisitions



**Patient Care Inc.:** (l-r) Roberta S. Brill, Executive Vice President; Timothy S. O'Toole, Chairman & Chief Executive Officer; Louis R. Tamburro, Executive Vice President & Chief Financial Officer; Elaine A. Boardman, President

tions currently represent \$138 million in annual revenues.

We are in various stages of talks with the owners of these franchises, and while there can be no assurance that any agreements can be reached, we expect that we will be able to complete some significant acquisitions in the next few years.

Service America and Patient Care both have experienced difficult operating environments in the year 2000. Each remains financially sound, and we see their operations turning around as labor markets ease and investments



**Chemed Corporate Management: (l-r) Lisa A. Dittman, Assistant Secretary; Anthony D. Vamvas III, Assistant Vice President; Joyce A. Lawrence, Assistant Secretary; Janelle M. Jessie, Assistant Vice President**

in automation and information systems at both companies begin paying off in enhanced productivity and improved data and reporting with which to manage their businesses.

Service America continues to fit in our main repair-service strategy, while

we continue to evaluate Patient Care's place in our operations. We would not rule out an attractive offer for Patient Care, which, because of its operational strength and outstanding reputation, could be an excellent match for a healthcare-oriented suitor.

We remain excited about the prospects for Chemed's Cadre

Computer Resources Inc. subsidiary, created in 1992 from Chemed's information technology staff. Cadre provides firewall security systems and training, strategic e-commerce consulting, and Internet development services to a growing list of both local and national

blue chip clients. In 2000, Cadre's revenues reached \$8.3 million.

Chemed continues to maintain a portfolio of investments. Among public companies, Omnicare Inc., which Chemed created and took public in 1981, and XL Capital Ltd.,



**Chemed Corporate Management: (l-r) Marianne Lamey, Assistant Controller; Laura A. Volker, Assistant Controller; Mark W. Stephens, Assistant Treasurer; Paula W. Kittner, Assistant Treasurer**

of which Chemed was a founding shareholder in 1986, have been major contributors over the years. Our realized and unrealized pretax capital gains on these two companies alone have reached \$133.6 million since our initial investments. While our current investments in these two companies are relatively small today, Chemed's sales of Omnicare shares in 2000 generated pretax capital gains of \$1.7 million. Also, Chemed's \$27 million investment in the preferred stock and warrants of Vitas Healthcare Corporation, a national provider of hospice care, yields 9% aftertax through our preferred dividend. Unrealized pretax gains in Chemed's overall portfolio at year-end 2000 totaled approximately \$5.0 million.

## ROTO-ROOTER INC.

### PRINCIPAL SERVICES & PRODUCTS

- Plumbing
- Sewer, drain & pipe cleaning
- Drain cleaning equipment
- Drain care products
- Heating, ventilating & air-conditioning (HVAC) services

### PRINCIPAL MARKETS

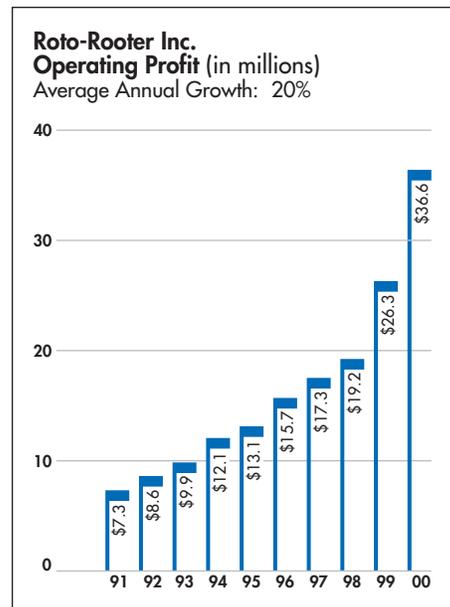
- Residential
- Industrial
- Business/Commercial
- Municipal

As long as people use water, home owners and businesses will need the services Roto-Rooter offers no matter the season or the state of the economy. Roto-Rooter Inc. is the largest provider of plumbing and drain cleaning in North America, operating through a network of more than 100 company-owned branches and independent contractors and 500 franchisees. Today, the total Roto-Rooter system offers services to more than 90% of the U.S. population and 55% of the Canadian population.

Roto-Rooter achieved excellent operating results during 2000, fueled by continued growth in revenues from plumbing repair and drain cleaning services. Plumbing revenues grew to \$117.1 million, up 15% over 1999, and drain cleaning revenues reached \$117.4 million, up 22%. Drain care product sales, amounting to \$6.1 million, rose 16% in 2000, while sales of Duracable® brand drain cleaning equipment grew 17% to \$1.8 million.

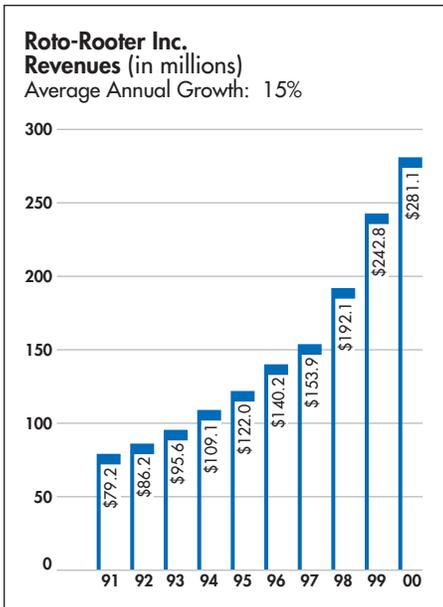
Increasing the size and tenure of its service force is central to growing Roto-Rooter's business in the years ahead. In 1999, Roto-Rooter significantly enhanced the income and benefits package for service technicians, who again enjoyed double-digit compensation increases in 2000. Attractive compensation, free training, and career growth opportunities give Roto-Rooter an edge in recruiting and retaining employees in tight labor markets. Well-trained, long-term employees help ensure satisfied customers, as well as enable Roto-Rooter to achieve productivity gains that translate into bottom-line results.

Roto-Rooter also sees opportunities through international franchising. In addition to earning initial license fees, Roto-Rooter realizes further income from fees based on the revenues of international



franchisees and their sub-franchisees. In January 2000, Roto-Rooter signed a master franchise agreement for the republics of Indonesia and Singapore and operations commenced in May. Roto-Rooter master franchises also operate in Japan, the Philippines,





Australia, the United Kingdom, and China, including Hong Kong.

In order to grow its business in 2001 and beyond, it is important to keep the Roto-Rooter name foremost in consumers' minds. In 2000, Roto-Rooter rolled out its new

toll-free number—1-800-GET-ROTO—nationwide. This number is now being prominently displayed on trucks and in advertising. Customers in most areas can now call a single, toll-free number and be connected directly to their local branch.

Roto-Rooter and the franchisees' association have once again joined forces to fund a national advertising program to promote the Roto-Rooter brand name in 2001. Together,

Roto-Rooter and its franchisees have greater media purchasing power and can leverage their marketing dollars to buy significantly more TV air time.

New TV ads featuring the familiar Roto-Rooter jingle are being added to the rotation of Roto-Rooter's many

memorable, humorous ads. The new ads spotlight the 1-800-GET-ROTO number, helping to build further brand awareness.

## **SERVICE AMERICA SYSTEMS INC.**

### **PRINCIPAL SERVICES & PRODUCTS**

- Service contracts for HVAC & major appliance repair, minor plumbing & electrical repairs
- Retail maintenance & repair services for major appliances & HVAC systems
- Air conditioner & major appliance sales
- Duct cleaning

### **PRINCIPAL MARKETS**

- Home owners
- Retirees
- Absentee home owners
- Dual-income households
- Condominium & home owners' associations

Service America affords worry-free protection to more than 164,000 home owners and business owners through service contracts on their HVAC systems and major appliances. In addition, Service America provides retail sales and service not covered by a contract, a profitable and expanding component of Service America's business. Since 1992, Service America's first full year as a Chemed company, retail revenues have grown at an average rate of 39% per year.

2000 was a transitional year for Service America, as the company implemented programs to eliminate unprofitable contracts, intentionally reducing its contract revenue base. At the same time, Service America made



*Customers assess the value of Roto-Rooter's service in large part by their experiences with the service technician who walks in the door. Having the best-trained, most highly motivated service force in the industry is key to Roto-Rooter's continued success.*



*Service America uses a service team concept where members help assign the best-qualified technician available for each job. This approach optimizes technician productivity and fosters customer satisfaction.*

significant investments in information systems and a state-of-the-art customer-service-and-dispatch call center. These critical initiatives, coupled with increased labor, fuel, materials, and liability insurance costs during the year, resulted in static revenues and lower earnings. Additional expense controls, along with measures taken

during 2000 to bring staffing in line with expected contract revenues, should serve to position Service America for long-term growth.

Shining brightly during the year was the company's retail service business. Retail revenues grew 17% over 1999's retail revenues, led by a 25% increase in air conditioner sales. In 2000, retail services represented approximately 26% of total revenues, with revenues mostly derived from add-on business from contract holders.

As Service America looks to the future, "Retail First" is its formula for generating growth. While the estimated potential service-contract volume in Service America's markets is \$300 million, the retail HVAC market is estimated to be \$2.5 billion. Service America's goal is to grow its retail

revenues to 50% of total revenues over the long term, while cultivating a profitable contract base. To do this, Service America will continue to solicit add-on business from its contract base and gain new customers through target marketing initiatives, primarily for air conditioner replacement and duct cleaning services. In turn, these new retail customers may choose to become contract customers. Other avenues of growth offering promise include newly launched preventive maintenance programs, as well as direct sales efforts to light commercial businesses.

Additionally, Service America will continue to streamline and centralize its purchasing, distribution, and customer service operations to optimize staffing, control costs, and increase productivity, leading to restored margins and future earnings growth.

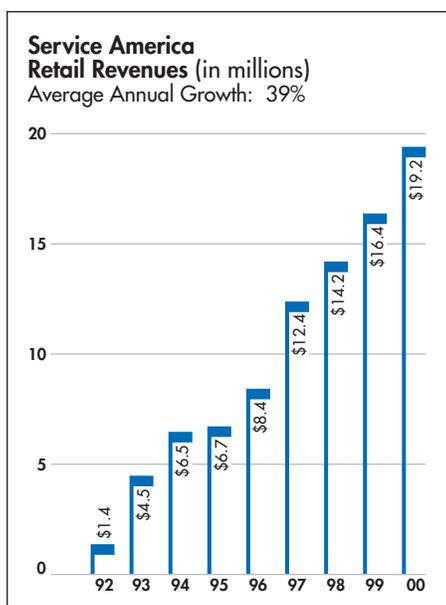
## **PATIENT CARE INC.**

### **PRINCIPAL SERVICE PROVIDERS**

- Registered nurses
- Licensed practical nurses
- Home health aides
- Live-in aides
- Physical, speech, respiratory & occupational therapists
- Medical social workers
- Nutritionists

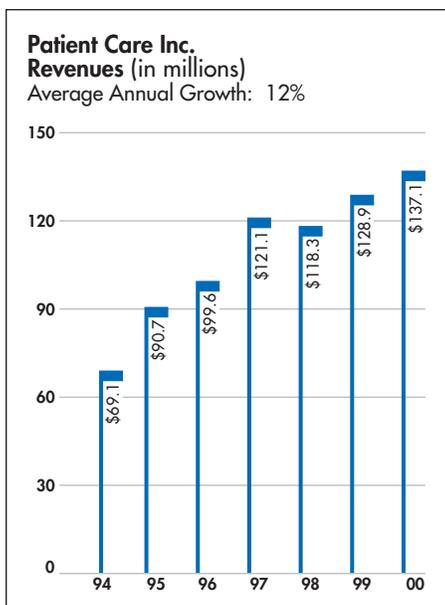
### **PRINCIPAL MARKETS**

- Private individuals
- Certified home-healthcare agencies
- Hospital-related homecare programs
- Insurance companies & managed care organizations
- Nursing homes & assisted-living facilities
- Hospice programs



Patient Care Inc., through nearly 7,000 home health aides, nurses, and other healthcare professionals, provides a broad range of home healthcare services. For many patients, as well as their families, doctors, and insurers, home care is a desirable alternative, whenever possible, to hospitalization or other institutional settings. Patient Care serves patients with acute injuries, but predominantly cares for patients with long-term, chronic illnesses, who, in many cases, need assistance with daily living activities. Patient Care's services include, but are not limited to, assistance with bathing, dressing, grooming, preparing meals, and eating.

Patient Care is a well-recognized industry leader because of its large market presence in the Northeast, its high quality standards, and large staff of well-trained caregivers. Quality assurance programs are the backbone of Patient Care's customer service



approach and include background checks of caregivers, unannounced home visits by supervisor nurses, rigorous initial training programs, and in-service training.

In 2000, Patient Care increased revenues in its most

attractive product lines, such as staffing services, through which home health aides are provided to Medicare agencies and to the increasingly important assisted-living-facility market. Medicare implemented a new, better-funded reimbursement system in the 2000 fourth quarter and should offer greater opportunities for Patient Care in the coming years. A tight labor market negatively affected Patient Care's operating profit margins in 2000, but prudent expense control and increasing volume improved operating results throughout the year.

During 2000, Patient Care continued to implement new, proprietary, computer-based systems. These systems provide excellent regulatory controls and enable efficient



*High demand for homecare services continues, with the direct patient-services market estimated at \$23 billion and growing at 5% to 8% annually and the \$6 billion medical staffing market growing at 16% to 18% annually. Patient Care is well-positioned to serve these growing markets.*

scheduling, billing, and accounts receivable tracking. Also during 2000, Patient Care completed its mobile clinical chart for Medicare nursing operations. This tool should help Patient Care attract high quality nurses, eliminate nonessential paperwork, deliver more productive nursing care, and attain an even higher level of patient satisfaction.

Patient Care's opportunity to grow its revenues and earnings continues to be significant as evidenced by well-documented demographic trends that point to a rapidly expanding market in the years ahead. Patient Care is prepared to take maximum advantage of its opportunities in 2001 and beyond.

**CONTENTS**

<b>Statement of Accounting Policies</b> .....	<b>12</b>
<b>Consolidated Statement of Income</b> .....	<b>13</b>
<b>Consolidated Balance Sheet</b> .....	<b>14</b>
<b>Consolidated Statement of Cash Flows</b> .....	<b>15</b>
<b>Consolidated Statement of Changes in Stockholders' Equity</b> .....	<b>16</b>
<b>Consolidated Statement of Comprehensive Income</b> .....	<b>16</b>
<b>Notes to Financial Statements</b> .....	<b>17</b>
<b>Segment Data</b> .....	<b>26</b>
<b>Selected Financial Data</b> .....	<b>28</b>
<b>Supplemental Revenue and Profit Statistics by Business Segment</b> .....	<b>30</b>
<b>Unaudited Summary of Quarterly Results</b> ...	<b>31</b>
<b>Management's Discussion and Analysis of Financial Condition and Results of Operations</b> .....	<b>32</b>



**REPORT OF INDEPENDENT ACCOUNTANTS**

To the Stockholders and Board of Directors of Chemed Corporation

In our opinion, the consolidated financial statements appearing on pages 12 through 27 of this report present fairly, in all material respects, the financial position of Chemed Corporation and its subsidiaries ("the Company") at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for the opinion expressed above.

*PriceWaterhouseCoopers* LLP

Cincinnati, Ohio  
February 5, 2001

# Statement of Accounting Policies

Chemed Corporation and Subsidiary Companies

## 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.

## CASH EQUIVALENTS

Cash equivalents comprise short-term highly liquid investments that have been purchased within three months of their date of maturity.

## OTHER INVESTMENTS

Other investments are recorded at their estimated fair values. In calculating realized gains and losses on the sales of investments, the specific-identification method is used to determine the cost of investments sold.

## INVENTORIES

Inventories are stated at the lower of cost or market. For determining the value of inventories, the first-in, first-out (“FIFO”) method is 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. Expenditures for maintenance, repairs, renewals and betterments that do not materially prolong the useful lives of the assets are expensed as incurred. The cost of property retired or sold and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is reflected currently in income.

## INTANGIBLE ASSETS

Goodwill and identifiable intangible assets arise from purchase business combinations and are amortized using the straight-line method over the estimated useful lives of the assets, but not in excess of 40 years.

The lives of the Company’s gross intangible assets at December 31, 2000, were (in thousands):

1 – 10 years	\$ 5,385
11 – 20 years	3,077
31 – 40 years	211,527

The Company periodically makes an estimation and valuation of the future benefits of its intangible assets based on key financial indicators. If the projected undiscounted cash flows of a major business unit indicate that goodwill or identifiable intangible assets have been impaired, a write-down to fair value is made.

## REVENUE RECOGNITION

Revenues received under prepaid contractual service agreements are recognized on a straight-line basis over the life of the contract. All other service revenues and sales are recognized when the services are provided or the products are delivered.

## 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 the Company’s outstanding stock options and nonvested stock awards. Diluted earnings per share also assume the conversion of the Convertible Preferred Securities into capital stock.

## EMPLOYEE STOCK OWNERSHIP PLANS

Contributions to the Company’s Employee Stock Ownership Plans (“ESOP”) are based on established debt repayment schedules. Shares are allocated to participants based on the principal and interest payments made during the period. The Company’s policy is to record its ESOP expense by applying the transition rule under the level-principal amortization concept.

## STOCK-BASED COMPENSATION PLANS

The Company uses Accounting Principles Board Opinion No. 25 (“APB 25”), Accounting for Stock Issued to Employees, to account for stock-based compensation. Since the Company’s stock options qualify as fixed options under APB 25 and since the option price equals the market price on the date of grant, there is no compensation cost recorded for stock options. Restricted stock is recorded as compensation cost over the requisite vesting periods on a pro rata basis, based on the market value on the date of grant.

## ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

## RECLASSIFICATIONS

Certain amounts in prior years’ financial statements have been reclassified to conform to the 2000 presentation.

# Consolidated Statement of Income

Chemed Corporation and Subsidiary Companies

(in thousands, except per share data)

For the Years Ended December 31,	2000	1999	1998
<b>Service Revenues and Sales</b> . . . . .	<b>\$500,685</b>	\$453,593	\$381,283
Cost of services provided and goods sold . . . . .	<b>303,683</b>	276,759	237,148
General and administrative expenses . . . . .	<b>102,373</b>	95,683	80,145
Selling and marketing expenses . . . . .	<b>45,859</b>	41,237	33,249
Depreciation . . . . .	<b>15,302</b>	13,129	10,649
Acquisition expenses (Note 2) . . . . .	<b>—</b>	—	752
Total costs and expenses . . . . .	<b>467,217</b>	426,808	361,943
Income from operations . . . . .	<b>33,468</b>	26,785	19,340
Interest expense . . . . .	<b>(6,736)</b>	(6,858)	(6,793)
Distributions on preferred securities . . . . .	<b>(1,197)</b>	—	—
Other income—net (Note 3) . . . . .	<b>7,711</b>	11,026	19,578
Income before income taxes . . . . .	<b>33,246</b>	30,953	32,125
Income taxes (Note 4) . . . . .	<b>(12,662)</b>	(11,257)	(12,216)
<b>Net Income</b> . . . . .	<b>\$ 20,584</b>	\$ 19,696	\$ 19,909
<b>Earnings Per Share</b>			
Net income . . . . .	<b>\$ 2.09</b>	\$ 1.88	\$ 1.98
Average number of shares outstanding . . . . .	<b>9,833</b>	10,470	10,058
<b>Diluted Earnings Per Share (Note 12)</b>			
Net income . . . . .	<b>\$ 2.07</b>	\$ 1.87	\$ 1.97
Average number of shares outstanding . . . . .	<b>10,305</b>	10,514	10,100

The Statement of Accounting Policies and the accompanying Notes to Financial Statements are integral parts of this statement.

# Consolidated Balance Sheet

Chemed Corporation and Subsidiary Companies

(in thousands, except share and per share data)

December 31,	2000	1999
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 5) . . . . .	\$ 10,280	\$ 17,282
Accounts receivable less allowances of \$5,137 (1999—\$4,554) . . . . .	54,571	55,889
Inventories, primarily general merchandise and finished goods . . . . .	10,503	9,794
Statutory deposits . . . . .	14,046	14,254
Current deferred income taxes (Note 4) . . . . .	10,667	9,294
Other current assets . . . . .	6,403	5,289
Total current assets . . . . .	106,470	111,802
Other investments (Note 11) . . . . .	37,099	37,849
Properties and equipment, at cost less accumulated depreciation (Note 6) . . . . .	75,177	71,728
Identifiable intangible assets less accumulated amortization of \$7,749 (1999—\$6,558) . . . . .	11,633	12,597
Goodwill less accumulated amortization of \$31,524 (1999—\$26,545) . . . . .	169,083	163,257
Other assets . . . . .	21,913	24,070
Total Assets . . . . .	\$421,375	\$421,303
<b>Liabilities</b>		
Current liabilities		
Accounts payable . . . . .	\$ 11,102	\$ 11,246
Current portion of long-term debt (Note 7) . . . . .	14,376	11,719
Income taxes (Note 4) . . . . .	11,862	8,714
Deferred contract revenue . . . . .	24,973	25,630
Other current liabilities (Note 8) . . . . .	44,629	41,119
Total current liabilities . . . . .	106,942	98,428
Long-term debt (Note 7) . . . . .	58,391	78,580
Other liabilities (Note 8) . . . . .	27,637	32,251
Commitments and contingencies (Notes 8 and 10) . . . . .		
Total Liabilities . . . . .	192,970	209,259
<b>Mandatorily Redeemable Convertible Preferred Securities of the Chemed Capital Trust (Note 14) . . . . .</b>		
	14,641	—
<b>Stockholders' Equity</b>		
Preferred stock—authorized 700,000 shares without par value; none issued		
Capital stock—authorized 15,000,000 shares \$1 par; issued 13,317,906 shares (1999—13,664,892 shares) . . . . .	13,318	13,665
Paid-in capital . . . . .	162,618	164,549
Retained earnings . . . . .	153,909	144,322
Treasury stock—3,467,753 shares (1999—3,268,783 shares), at cost . . . . .	(105,249)	(99,437)
Unearned compensation (Note 9) . . . . .	(16,683)	(17,056)
Deferred compensation payable in Company stock (Note 9) . . . . .	5,500	5,340
Accumulated other comprehensive income . . . . .	3,237	3,392
Notes receivable for shares sold (Note 13) . . . . .	(2,886)	(2,731)
Total Stockholders' Equity . . . . .	213,764	212,044
Total Liabilities and Stockholders' Equity . . . . .	\$421,375	\$421,303

The Statement of Accounting Policies and the accompanying Notes to 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,	2000	1999	1998
<b>Cash Flows from Operating Activities</b>			
Net income . . . . .	<b>\$20,584</b>	\$ 19,696	\$ 19,909
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization . . . . .	<b>23,445</b>	20,129	17,284
Gains on sales of investments . . . . .	<b>(3,399)</b>	(4,661)	(12,589)
Provision for uncollectible accounts receivable . . . . .	<b>2,342</b>	2,235	2,452
Provision for deferred income taxes . . . . .	<b>2,105</b>	128	3,426
Changes in operating assets and liabilities, excluding amounts acquired in business combinations:			
Increase in accounts receivable . . . . .	<b>(1,074)</b>	(13,949)	(3,848)
Decrease/(increase) in inventories . . . . .	<b>(706)</b>	135	(734)
Decrease/(increase) in statutory reserve requirements . . . . .	<b>208</b>	2,444	(561)
Increase in other current assets . . . . .	<b>(936)</b>	(676)	(204)
Increase/(decrease) in accounts payable, deferred contract revenue and other current liabilities . . . . .	<b>2,718</b>	5,094	(4,593)
Increase/(decrease) in income taxes . . . . .	<b>4,395</b>	(3,108)	475
Other—net . . . . .	<b>2,156</b>	75	(239)
Net cash provided by operating activities . . . . .	<b><u>51,838</u></b>	<u>27,542</u>	<u>20,778</u>
<b>Cash Flows from Investing Activities</b>			
Capital expenditures . . . . .	<b>(19,499)</b>	(22,411)	(21,997)
Business combinations, net of cash acquired (Note 2) . . . . .	<b>(11,504)</b>	(15,518)	(14,843)
Proceeds from sales of investments . . . . .	<b>4,290</b>	7,701	14,963
Net uses for discontinued operations . . . . .	<b>(3,695)</b>	(2,533)	(5,607)
Purchase of Roto-Rooter minority interest . . . . .	<b>(1,236)</b>	(1,708)	(1,556)
Other—net . . . . .	<b>324</b>	2,295	3,794
Net cash used by investing activities . . . . .	<b><u>(31,320)</u></b>	<u>(32,174)</u>	<u>(25,246)</u>
<b>Cash Flows from Financing Activities</b>			
Repayment of long-term debt (Note 7) . . . . .	<b>(18,164)</b>	(2,982)	(2,891)
Purchases of treasury stock . . . . .	<b>(5,728)</b>	(1,724)	(399)
Dividends paid . . . . .	<b>(4,022)</b>	(22,456)	(21,674)
Proceeds from issuance of long-term debt (Note 7) . . . . .	<b>1,200</b>	10,000	—
Acquisition of shares for stock purchase plan . . . . .	<b>—</b>	(2,731)	—
Other—net . . . . .	<b>(806)</b>	449	(168)
Net cash used by financing activities . . . . .	<b><u>(27,520)</u></b>	<u>(19,444)</u>	<u>(25,132)</u>
<b>Decrease in cash and cash equivalents . . . . .</b>	<b><u>(7,002)</u></b>	<u>(24,076)</u>	<u>(29,600)</u>
Cash and cash equivalents at beginning of year . . . . .	<b><u>17,282</u></b>	<u>41,358</u>	<u>70,958</u>
Cash and cash equivalents at end of year . . . . .	<b><u>\$ 10,280</u></b>	<u>\$ 17,282</u>	<u>\$ 41,358</u>

The Statement of Accounting Policies and the accompanying Notes to 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	Unearned Compensation	Deferred Compensation Payable in Company Stock	Accumulated Other Comprehensive Income	Notes Receivable for Shares Sold	Total
Balance at December 31, 1997 . . . . .	\$ 13,020	\$ 158,485	\$ 148,680	\$ (88,063)	\$ (23,959)	\$ —	\$ 19,957	\$ —	\$ 228,120
Net income . . . . .	—	—	19,909	—	—	—	—	—	19,909
Dividends paid (\$2.12 per share) . . . . .	—	—	(21,674)	—	—	—	—	—	(21,674)
Other comprehensive income . . . . .	—	—	—	—	—	—	(6,695)	—	(6,695)
Decrease in unearned compensation (Note 9) . . . . .	—	—	—	—	3,934	—	—	—	3,934
Reclassification of employee benefit trust liabilities/(assets) . . . . .	—	—	—	(5,345)	—	5,345	—	—	—
Pooling of interests . . . . .	469	200	(104)	—	—	—	—	—	565
Purchases of treasury stock . . . . .	—	—	—	(399)	—	—	—	—	(399)
Stock awards and exercise of stock options (Note 13) . . . . .	118	4,266	—	(3,581)	(533)	—	—	—	270
Other . . . . .	(2)	(699)	150	151	—	(274)	—	—	(674)
<b>Balance at December 31, 1998 . . . . .</b>	<b>13,605</b>	<b>162,252</b>	<b>146,961</b>	<b>(97,237)</b>	<b>(20,558)</b>	<b>5,071</b>	<b>13,262</b>	<b>—</b>	<b>223,356</b>
Net income . . . . .	—	—	19,696	—	—	—	—	—	19,696
Dividends paid (\$2.12 per share) . . . . .	—	—	(22,456)	—	—	—	—	—	(22,456)
Other comprehensive income . . . . .	—	—	—	—	—	—	(9,870)	—	(9,870)
Decrease in unearned compensation (Note 9) . . . . .	—	—	—	—	4,498	—	—	—	4,498
Sale of shares for notes . . . . .	—	—	—	2,731	—	—	—	(2,731)	—
Purchases of treasury stock . . . . .	—	—	—	(4,455)	—	—	—	—	(4,455)
Stock awards (Note 13) . . . . .	54	1,690	—	(326)	(996)	—	—	—	422
Other . . . . .	6	607	121	(150)	—	269	—	—	853
<b>Balance at December 31, 1999 . . . . .</b>	<b>13,665</b>	<b>164,549</b>	<b>144,322</b>	<b>(99,437)</b>	<b>(17,056)</b>	<b>5,340</b>	<b>3,392</b>	<b>(2,731)</b>	<b>212,044</b>
Net income . . . . .	—	—	20,584	—	—	—	—	—	20,584
Dividends paid (\$.40 per share) . . . . .	—	—	(4,022)	—	—	—	—	—	(4,022)
Other comprehensive income . . . . .	—	—	—	—	—	—	(155)	—	(155)
<b>Exchange of capital stock for trust securities . . . . .</b>	<b>(576)</b>	<b>(7,971)</b>	<b>(6,992)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(15,539)</b>
Decrease in unearned compensation (Note 9) . . . . .	—	—	—	—	3,617	—	—	—	3,617
Purchases of treasury stock . . . . .	—	—	—	(5,320)	—	—	—	—	(5,320)
Stock awards and exercise of stock options (Note 13) . . . . .	226	6,266	—	(408)	(3,244)	—	—	—	2,840
Other . . . . .	3	(226)	17	(84)	—	160	—	(155)	(285)
<b>Balance at December 31, 2000 . . . . .</b>	<b>\$ 13,318</b>	<b>\$162,618</b>	<b>\$153,909</b>	<b>\$(105,249)</b>	<b>\$ (16,683)</b>	<b>\$ 5,500</b>	<b>\$ 3,237</b>	<b>\$ (2,886)</b>	<b>\$213,764</b>

# Consolidated Statement of Comprehensive Income

Chemed Corporation and Subsidiary Companies

(in thousands)

For the Years Ended December 31,	2000	1999	1998
Net income . . . . .	<b>\$20,584</b>	\$19,696	\$19,909
Other comprehensive income net of income tax:			
Unrealized holding gains/(losses) arising during the period . . . . .	2,106	(6,910)	1,250
Less reclassification adjustment for gains included in net income . . . . .	(2,261)	(2,960)	(7,945)
Total . . . . .	(155)	(9,870)	(6,695)
Comprehensive income . . . . .	<b>\$20,429</b>	\$ 9,826	\$13,214

The Statement of Accounting Policies and the accompanying Notes to Financial Statements are integral parts of these statements.

## 1. SEGMENTS AND NATURE OF THE BUSINESS

Chemed is a diversified public corporation with strategic positions in plumbing, drain cleaning, and heating, ventilating and air conditioning (“HVAC”) services (Roto-Rooter); home healthcare services (Patient Care); residential appliance and air conditioning repair services (Service America); and computer software and related services (Cadre Computer). Relative contributions to service revenues and sales were 56%, 27%, 15% and 2% in 2000, respectively.

The business segments are defined as follows:

- The Roto-Rooter segment includes the combined operations of the Roto-Rooter Group (“Roto-Rooter”), a group of wholly owned businesses that provide repair and maintenance services to residential and commercial accounts. Such services include plumbing; sewer, drain and pipe cleaning; and HVAC services. They are delivered through company-owned, contractor-operated and franchised locations. Roto-Rooter also manufactures and sells products and equipment used to provide such services.
- The Patient Care segment includes the consolidated operations of the wholly owned businesses comprising the Patient Care Group (“Patient Care”), which offers complete, professional home-healthcare services primarily in the New York-New Jersey-Connecticut area. Services provided include skilled nursing; home health aid; physical, speech, respiratory and occupational therapies; medical social work; and nutrition.
- The Service America segment includes the consolidated operations of the wholly owned businesses comprising the Service America Systems Group (“Service America”). The group provides HVAC and appliance repair and maintenance services primarily to residential customers through service contracts and on demand. In addition, Service America sells air conditioning equipment and duct cleaning services.
- The Cadre Computer segment includes the operations of Cadre Computer Resources, Inc. (“Cadre Computer”), an 89%-owned subsidiary. The subsidiary provides computer software services, including distribution and installation of firewall software, training and related services.

Substantially all of the Company’s service revenues and sales from continuing operations are generated from business within the United States. Within the Patient Care segment, balances due from the U.S. federal government and Visiting Nurse Services of New York at December 31, 2000,

accounted for approximately 16% and 13%, respectively, of the Company’s consolidated accounts receivable balance. No other single customer’s balance at December 31, 2000, accounted for more than 10% of the Company’s consolidated accounts receivable balance. In addition, substantially all of Patient Care’s accounts receivable at December 31, 2000 (\$35.5 million), was generated from customers located in the northeastern United States.

Management closely monitors accounts receivable balances and has established policies regarding the extension of credit and compliance therewith. The Patient Care segment historically has experienced a relatively low level of losses on the collection of its receivables.

Approximately 36% of Patient Care’s net revenues are derived from services provided directly to patients with coverage under the federal government’s Medicare program or under joint federal-and-state-sponsored Medicaid programs. In addition, 36% of Patient Care’s revenues arise from contracts with other certified home-health agencies to provide services to recipients under these entitlement programs.

Financial data by business segment shown on pages 26 and 27 of this annual report are integral parts of these financial statements.

## 2. BUSINESS COMBINATIONS

During 2000, three purchase business combinations were completed within the Roto-Rooter segment for an aggregate purchase price of \$11.5 million in cash.

During 1999, 10 purchase business combinations were completed within the Roto-Rooter, Patient Care and Service America segments for aggregate purchase prices of \$15.5 million in cash.

Similarly, during 1998, 16 purchase business combinations were completed within the Roto-Rooter, Patient Care and Service America segments for aggregate purchase prices of \$18.5 million in cash. Also, two pooling-of-interests business combinations were completed in 1998 within the Roto-Rooter segment upon the issuance of 469,560 shares of Chemed Capital Stock.

All of the aforementioned Roto-Rooter business combinations involved operations primarily in the business of providing plumbing repair, HVAC and drain cleaning services. All of the Patient Care acquisitions involved operations primarily in the business of providing home healthcare services, and the Service America acquisitions provide HVAC and appliance repair and maintenance services.

The unaudited pro forma results of operations, assuming purchase business combinations completed in 2000, 1999 and 1998 were completed on January 1 of the preceding year, are presented below (in thousands, except per share data):

	For the Years Ended December 31,		
	2000	1999	1998
Service revenues and sales	\$501,714	\$468,042	\$409,935
Net income	20,617	19,830	21,202
Earnings per share	2.10	1.89	2.11
Diluted earnings per share	2.08	1.89	2.10

The excess of the purchase price over the fair value of the net assets acquired in purchase business combinations is classified as goodwill. A summary of net assets acquired in purchase business combinations follows (in thousands):

	For the Years Ended December 31,		
	2000	1999	1998
Working capital	\$ 89	\$ 2,935	\$ 1,038
Identifiable intangible assets	210	765	485
Goodwill	11,059	11,893	17,294
Other assets and liabilities—net	146	(75)	(307)
Total net assets	11,504	15,518	18,510
Less—cash and cash equivalents acquired	—	—	(767)
—present value of deferred payments	—	—	(2,900)
Net cash used	\$11,504	\$15,518	\$14,843

The combined impact of the 1998 pooling-of-interests transactions on the Company's historical consolidated financial statements was not material; consequently, prior-period financial statements were not restated for these transactions. The results of operations of all business combinations have been included in the Company's consolidated financial statements from the effective date of each combination.

In connection with the pooling-of-interests transactions in 1998, the Company incurred expenses aggregating \$752,000 (\$495,000 aftertax or \$.05 per share).

### 3. OTHER INCOME—NET

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

	For the Years Ended December 31,		
	2000	1999	1998
Gain on sales of investments	\$ 3,399	\$ 4,661	\$12,589
Dividend income	2,563	2,626	2,822
Interest income	1,537	1,589	4,049
Unrealized gains/(losses) on investments	388	1,966	(266)
Other—net	(176)	184	384
Total other income —net	\$ 7,711	\$11,026	\$19,578

### 4. INCOME TAXES

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

	For the Years Ended December 31,		
	2000	1999	1998
<u>Continuing Operations</u>			
Current			
U.S. federal	\$ 8,302	\$ 9,024	\$ 7,457
U.S. state and local	2,151	1,917	1,213
Foreign	104	188	120
Deferred			
U.S. federal	2,153	171	3,432
Foreign	(48)	(43)	(6)
Total	\$12,662	\$11,257	\$12,216
<u>Discontinued Operations</u>			
Current U.S. federal	\$ (1,117)	\$ (770)	\$ 237
Deferred U.S. federal	842	770	(237)
Total	\$ (275)	\$ —	\$ —

For 2000, the pretax loss from discontinued operations is \$275,000.

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

	December 31,	
	<u>2000</u>	<u>1999</u>
Deferred compensation	\$ 6,958	\$ 5,656
Accrued insurance expense	5,608	4,667
Accruals related to discontinued operations	5,530	6,337
Allowances for uncollectible accounts receivable	1,797	1,601
Accrued state taxes	1,600	1,932
Severance payments	478	963
Amortization of intangibles	—	1,262
Other	2,690	3,519
Gross deferred income tax assets	<u>24,661</u>	<u>25,937</u>
Accelerated tax depreciation	(8,088)	(6,045)
Market valuation of investments	(1,946)	(2,259)
Cash to accrual adjustments	(2,100)	(2,123)
Other	(1,673)	(1,788)
Gross deferred income tax liabilities	<u>(13,807)</u>	<u>(12,215)</u>
Net deferred income tax assets	<u>\$10,854</u>	<u>\$13,722</u>

Included in other assets at December 31, 2000, are deferred income tax assets of \$187,000 (1999—\$4,428,000). Based on the Company's history of prior operating earnings and its expectations for future growth, management has determined that the operating income of the Company will, more likely than not, be sufficient to ensure the full realization of the deferred income tax assets.

The difference between the effective tax rate for continuing operations and the statutory U.S. federal income tax rate is explained as follows:

	For the Years Ended December 31,		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
Nondeductible amortization of goodwill	4.2	4.5	4.2
State and local income taxes, less federal income tax benefit	4.2	4.0	2.4
Work opportunity tax credit	(2.2)	(1.7)	(1.7)
Domestic dividend exclusion	(2.1)	(2.3)	(2.2)
Tax adjustments related to finalization of prior years' audits	—	(1.7)	—
Tax benefit on dividends paid to ESOPs	(.2)	(1.3)	(1.3)
Other—net	(.8)	(.1)	1.6
Effective tax rate	<u>38.1%</u>	<u>36.4%</u>	<u>38.0%</u>

Income taxes included in the components of other comprehensive income are as follows (in thousands):

	For the Years Ended December 31,		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
Unrealized holding gains/(losses)	\$ 1,134	\$(3,721)	\$ 673
Reclassification adjustment	(1,138)	(1,701)	(4,644)

The total amount of income taxes paid during the year ended December 31, 2000, was \$6,154,000 (1999—\$13,982,000; 1998—\$8,069,000).

## 5. CASH EQUIVALENTS

Included in cash and cash equivalents at December 31, 2000, are cash equivalents in the amount of \$7,063,000 (1999—\$14,514,000). The cash equivalents at both dates consist of investments in various money market funds and repurchase agreements yielding interest at a weighted average rate of 5.2% in 2000 and 2.5% in 1999.

From time to time throughout the year, the Company invests its excess cash in repurchase agreements directly with major commercial banks. The collateral is not physically held by the Company, but the term of such repurchase agreements is less than 10 days. Investments of significant amounts are spread among a number of banks, and the amounts invested in each bank are varied constantly.

**6. PROPERTIES AND EQUIPMENT**

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

	December 31,	
	<u>2000</u>	1999
Land	\$ 2,568	\$ 2,245
Buildings	19,050	17,822
Transportation equipment	40,219	37,549
Machinery and equipment	32,688	28,471
Computer software	21,921	13,539
Furniture and fixtures	21,516	21,577
Projects under construction	1,972	5,935
Total properties and equipment	<u>139,934</u>	127,138
Less accumulated depreciation	<u>(64,757)</u>	(55,410)
Net properties and equipment	<u>\$ 75,177</u>	<u>\$ 71,728</u>

**7. LONG-TERM DEBT AND LINES OF CREDIT**

A summary of the Company's long-term debt follows (in thousands):

	December 31,	
	<u>2000</u>	1999
Senior notes:		
8.15%, due 2001 – 2004	\$40,000	\$50,000
7.31%, due 2005 – 2009	25,000	25,000
10.67%, due 2001 – 2003	3,000	4,000
Revolving Credit Agreement:		
6.92% (1999 – 6.33%), due 2001	3,000	10,000
Employee Stock Ownership Plans loan guarantees:		
8.14%	—	568
Other	1,767	731
Subtotal	<u>72,767</u>	90,299
Less current portion	<u>(14,376)</u>	(11,719)
Long-term debt, less current portion	<u>\$58,391</u>	<u>\$78,580</u>

**SENIOR NOTES**

In March 1997, the Company borrowed \$25,000,000 from several insurance companies. Principal is repayable in five annual installments of \$5,000,000 beginning on March 15, 2005, and bears interest at the rate of 7.31% per annum. Interest is payable on March 15 and September 15 of each year.

In December 1992, the Company borrowed \$50,000,000 from several insurance companies. The first annual installment was due and paid on December 15, 2000. The remaining principal is repayable in four annual installments of \$10,000,000 due on December 15, 2001 through 2004, and bears interest at the rate of 8.15% per annum. Interest is payable on June 15 and December 15 of each year.

In November 1988, the Company borrowed \$11,000,000 from a consortium of insurance companies. Annual installments of \$1,000,000 were due and paid November 1, 1993 through 2000. The remaining \$3,000,000 bears interest at the rate of 10.67% with annual principal payments of \$1,000,000 due on November 1, 2001 through 2003. Interest is payable on May 1 and November 1 of each year.

**REVOLVING CREDIT AGREEMENT AND LINES OF CREDIT**

In June 1996, the Company entered into an amended revolving credit agreement with Bank of America National Trust and Savings Association to borrow up to \$85,000,000 at any time during the five-year period ending June 20, 2001. Unpaid principal, which amounts to \$3,000,000 at December 31, 2000, is due on June 20, 2001. The interest rate is based on various stipulated market rates of interest.

In addition, the Company had approximately \$22,424,000 of unused short-term lines of credit with various banks at December 31, 2000.

**OTHER**

Interest rates on other long-term debt range from 7% to 8%, and the obligations are due on various dates through 2009.

The following is a schedule by year of required long-term debt payments as of December 31, 2000 (in thousands):

2001	\$14,376
2002	11,380
2003	11,409
2004	10,334
2005	5,070
After 2005	<u>20,198</u>
Total long-term debt	<u>\$72,767</u>

The various loan agreements contain certain covenants which could restrict the amount of cash dividend payments, net rental payments, treasury stock purchases and certain other transactions of the Company. The Company does not anticipate that the restrictions imposed by the agreements will materially restrict its future operations or ability to pay dividends.

The total amount of interest paid during the year ended December 31, 2000, was \$7,345,000 (1999—\$6,706,000; 1998—\$6,994,000). Total interest capitalized during the year ended December 31, 2000, was \$500,000 (1999—\$927,000; 1998—\$308,000).

## 8. OTHER LIABILITIES

At December 31, 2000, other current liabilities included accrued insurance liabilities of \$15,808,000 and accrued wages of \$6,958,000 (1999—\$14,336,000 and \$5,888,000, respectively). Other liabilities at December 31, 2000, include deferred compensation liabilities totaling \$14,381,000 (1999—\$12,896,000).

At December 31, 2000, the Company's accrual for its estimated liability for potential environmental cleanup and related costs arising from the sale of DuBois Chemicals Inc. ("DuBois") amounts to \$2,972,000. Of this balance, \$472,000 is included in other liabilities and \$2,500,000 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 \$18,075,000. On the basis of a continuing evaluation of the Company's potential liability, 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.

Net uses of cash for discontinued operations in the statement of cash flows represent the payment of severance, lease and other liabilities relating to operations disposed of in 1991 and 1997.

## 9. PENSION AND RETIREMENT PLANS

Retirement obligations under various plans cover substantially all full-time employees who meet age and/or service eligibility requirements. The major plans providing retirement benefits to the Company's employees are defined contribution plans.

The Company has established two ESOPs which purchased a total of \$56,000,000 of the Company's capital stock. Until December 1997, the ESOPs were financed by bank and insurance company loans guaranteed by the Company. Subsequently, the Company restructured the ESOPs and internally financed approximately \$16.2 million of the \$21.8 million ESOP loans outstanding at December 31, 1997.

Substantially all Chemed headquarters and eligible employees of Roto-Rooter and Cadre Computer participate in the ESOPs. Eligible employees of Roto-Rooter, Patient Care and Service America are also covered by other defined contribution plans.

Expenses charged to continuing operations for the Company's pension and profit-sharing plans, ESOPs, excess benefit plans and other similar plans comprise the following (in thousands):

	For the Years Ended December 31,		
	2000	1999	1998
ESOPs:			
Interest expense	\$ —	\$ 23	\$ 173
Compensation cost	1,679	1,723	1,616
Pension, profit-sharing and other similar plans	5,434	6,589	2,893
Total	<u>\$7,113</u>	<u>\$8,335</u>	<u>\$4,682</u>
Dividends on ESOP shares used for debt service	<u>\$ 270</u>	<u>\$1,502</u>	<u>\$1,643</u>

At December 31, 2000, there were 444,925 allocated shares (1999—401,282 shares) and 217,258 unallocated shares (1999—296,157 shares) in the ESOP trusts.

The Company has an excess benefit plan for key employees whose participation in the ESOPs is limited by ERISA rules. Benefits are determined based on theoretical participation in the qualified ESOPs. Prior to September 1, 1998, the value of these benefits was invested in shares of the Company's stock and in mutual funds, which were held by grantor trusts. Beginning September 1, 1998, current benefits are invested in only mutual funds, and participants are not permitted to diversify accumulated benefits which have been invested in shares of the Company's stock. At December 31, 2000, the trusts' assets invested in shares of the Company's capital stock are included in treasury stock, and the corresponding liability is included in a separate component of shareholders' equity. At December 31, 2000, these trusts held 158,123 shares of the Company's stock (1999—156,852 shares). The assets of these excess benefit plans and of Roto-Rooter and Service America deferred compensation plans, all of which are invested in various mutual funds, totaled \$14,194,000 at December 31, 2000 (1999—\$12,745,000), and are included in other assets. The corresponding liabilities are included in other liabilities.

**10. LEASE ARRANGEMENTS**

The Company, as lessee, has operating leases which cover its corporate office headquarters, various warehouse and office facilities, office equipment and transportation equipment. The remaining terms of these leases range from one year to 18 years, and in most cases, management expects that these leases will be renewed or replaced by other leases in the normal course of business. Substantially all equipment is owned by the Company.

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, 2000 (in thousands):

2001	\$10,478
2002	9,087
2003	7,785
2004	6,162
2005	5,581
After 2005	3,226
<b>Total minimum rental payments</b>	<b>42,319</b>
<b>Less minimum sublease rentals</b>	<b>(5,802)</b>
<b>Net minimum rental payments</b>	<b>\$36,517</b>

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

	For the Years Ended December 31,		
	2000	1999	1998
Total rental payments	\$12,140	\$12,265	\$ 9,540
Less sublease rentals	(1,765)	(1,914)	(1,602)
Net rental expense	\$10,375	\$10,351	\$ 7,938

**11. FINANCIAL INSTRUMENTS**

The following methods and assumptions are used in estimating the fair value of each class of the Company's financial instruments:

- For cash and cash equivalents, accounts receivable, statutory deposits and accounts payable, the carrying amount is a reasonable estimate of fair value because of the liquidity and short-term nature of these instruments.
- For other investments and other assets, fair value is based upon quoted market prices for these or similar securities, if available. Included in other investments, below, is the Company's investment in privately held Vitas Healthcare Corporation ("Vitas"), which provides noncurative care to chronically ill patients. Since it is not considered practicable to obtain an appraisal of the value of Vitas Common Stock Purchase Warrants ("Warrants"), it has been assumed that the market value of the Warrants is equal to book value (\$1,500,000). The value of the Vitas 9% Cumulative Preferred Stock ("Preferred") is based on the present value of the mandatory redemption payments, using an interest rate of 9.0%, a rate which management believes is reasonable in view of risk factors attendant to the investment. During 2000, the Company and Vitas agreed to extend the redemption date of the Preferred to May 1, 2001. It is considered reasonably possible that the redemption date will again be extended in the year 2001.
- The fair value of the Company's long-term debt is estimated by discounting the future cash outlays associated with each debt instrument using interest rates currently available to the Company for debt issues with similar terms and remaining maturities.
- The fair value of the Mandatorily Redeemable Convertible Preferred Securities of the Chemed Capital Trust ("Trust Securities") is based on the quoted market value at the end of the period.

The estimated fair values of the Company's financial instruments are as follows (in thousands):

December 31,	Carrying Amount	Fair Value
<b>2000</b>		
<b>Other investments<sup>(a)</sup></b>	<b>\$37,099</b>	<b>\$37,099</b>
<b>Long-term debt</b>	<b>72,767</b>	<b>75,476</b>
<b>Trust securities</b>	<b>14,641</b>	<b>15,184</b>
1999		
Other investments <sup>(a)</sup>	\$37,849	\$37,849
Long-term debt	90,299	89,680

(a) Amounts include \$27,243,000 invested in the Preferred, which is recorded in other investments.

The Company has classified its investments in equity securities and certain debt securities as either trading or available-for-sale. The trading category includes those investments which are held principally for sale in the near term. All other investments are classified in the available-for-sale category. Investments included in cash equivalents are considered to be trading securities, and all other investments are considered to be available-for-sale.

Disclosures regarding the Company's investments, all of which are equity securities classified as available-for-sale, are summarized below (in thousands):

	December 31,	
	<b>2000</b>	1999
Aggregate fair value	<b>\$37,099</b>	\$37,849
Gross unrealized holding gains	<b>5,153</b>	5,290
Gross unrealized holding losses	<b>173</b>	70
Amortized cost	<b>32,119</b>	32,629

The chart below summarizes information with respect to available-for-sale securities sold during the period (in thousands):

	For the Years Ended December 31,		
	<b>2000</b>	1999	1998
Proceeds from sale	<b>\$ 4,290</b>	\$ 7,701	\$14,963
Gross realized gains	<b>3,496</b>	4,675	12,857
Gross realized losses	<b>97</b>	14	268

## 12. DILUTED EARNINGS PER SHARE

Diluted earnings per share were calculated as follows (in thousands, except per share data):

For the Years Ended December 31,	Net Income		
	Income (Numerator)	Shares (Denominator)	Income Per Share
<b>2000</b>			
<b>Earnings</b>	<b>\$20,584</b>	<b>9,833</b>	<b><u>\$2.09</u></b>
<b>Conversion of   trust securities   Nonvested   stock awards   Dilutive stock   options</b>	<b>777</b>	<b>378</b>	
<b>Diluted   earnings</b>	<b><u>\$21,361</u></b>	<b><u>10,305</u></b>	<b><u>\$2.07</u></b>
1999			
Earnings	\$19,696	10,470	<u>\$1.88</u>
Nonvested stock awards	—	43	
Dilutive stock options	—	1	
Diluted earnings	<u>\$19,696</u>	<u>10,514</u>	<u>\$1.87</u>
1998			
Earnings	\$19,909	10,058	<u>\$1.98</u>
Nonvested stock awards	—	37	
Dilutive stock options	—	5	
Diluted earnings	<u>\$19,909</u>	<u>10,100</u>	<u>\$1.97</u>

During 2000 and 1999, the following options, whose exercise prices were greater than the average market price during most of the year (and therefore excluded from the computation of diluted earnings per share), were outstanding at December 31:

Grant Date	Exercise Price	Number of Options	
		2000	1999
May 1999	\$32.19	<b>490,125</b>	497,625
May 1997	35.94	<b>166,188</b>	171,688
March 1998	39.13	<b>160,462</b>	165,112
May 1996	38.75	<b>161,923</b>	162,793
May 1995	32.19	<b>83,713</b>	89,713
February 1995	33.63	<b>68,000</b>	68,000
March 1994	32.13	<b>34,925</b>	37,925
April 1998	40.53	<b>12,000</b>	12,000
May 1998	37.78	<b>1,000</b>	1,750

During 1998, the following options, whose exercise prices were greater than the average market price during the last six months of the year (and therefore excluded from the computation of diluted earnings per share), were outstanding at December 31, 1998:

Grant Date	Exercise Price	Number of Options
March 1998	39.13	179,600
May 1996	38.75	164,150
April 1998	40.53	14,000
May 1998	37.78	2,000

### 13. STOCK INCENTIVE PLANS

The Company has eight Stock Incentive Plans under which 2,850,000 shares of Chemed Capital Stock are issued to key employees pursuant to the grant of stock awards and/or options to purchase such shares. All options granted under these plans provide for a purchase price equal to the market value of the stock at the date of grant. Two plans, covering a total of 700,000 shares, were adopted in May 1999.

Under the plan adopted in 1983, both nonstatutory and incentive stock options have been granted. Incentive stock options granted under the 1983 plan become exercisable in full six months following the date of grant; nonstatutory options granted under the 1983 plan become exercisable in four annual installments commencing six months after the date of grant. Under the Long Term Incentive Plan, adopted in 1999, up to 250,000 shares may be issued to employees who are not officers or directors of the Company or its subsidiaries.

The other plans are not qualified, restricted or incentive stock option plans under the Internal Revenue Code. Options generally become exercisable six months following the date of grant in either three or four equal annual installments.

Data relating to the Company's stock issued to employees follow:

	2000		1999		1998	
	Number of Shares	Average Price	Number of Shares	Average Price	Number of Shares	Average Price
Stock options:						
Outstanding at January 1 . . . . .	<b>1,226,756</b>	<b>\$34.60</b>	772,001	\$36.31	680,013	\$34.93
Granted . . . . .	—	—	510,650	32.19	199,250	39.23
Exercised . . . . .	<b>(6,000)</b>	<b>30.38</b>	—	—	(93,599)	32.43
Forfeited . . . . .	<b>(26,000)</b>	<b>34.78</b>	(55,895)	36.10	(13,663)	36.87
Outstanding at December 31 . .	<b>1,194,756</b>	<b>34.62</b>	<u>1,226,756</u>	34.60	<u>772,001</u>	36.31
Exercisable at December 31 . . .	<b>906,810</b>	<b>35.06</b>	<u>722,375</u>	35.21	<u>482,746</u>	35.29
Stock awards issued . . . . .	<b>225,298</b>	<b>28.26</b>	<u>57,816</u>	31.38	<u>25,039</u>	39.65

Options outstanding at December 31, 2000, comprise the following:

	Range of Exercise Prices	
	\$21.94 – \$28.56	\$32.13 – \$40.53
Options outstanding	17,050	1,177,706
Average exercise price of options outstanding	\$26.83	\$34.73
Average contractual life	1.6 yrs.	6.8 yrs.
Options exercisable	17,050	889,760
Average exercise price of options exercisable	\$26.83	\$35.22

Also, there were 115,281 shares available for granting of stock options and awards at December 31, 2000.

Total compensation cost recognized for stock awards for continuing operations was \$1,721,000 in 2000 (1999—\$1,620,000; 1998—\$1,309,000). The shares of capital stock were issued to key employees and directors at no cost and generally are restricted as to the transfer of ownership. Restrictions covering between 7% and 33% of each holder's shares lapse annually.

Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, requires the presentation of pro forma data assuming all options granted after December 31, 1994, are recorded at fair value. Summarized below are pro forma data developed by applying the Black-Scholes valuation method to the Company's stock options (in thousands, except per share data):

Pro Forma Results	For the Years Ended December 31,		
	2000	1999	1998
Net income	\$20,126	\$18,972	\$19,138
Earnings per share	2.05	1.81	1.90
Diluted earnings per share	2.03	1.80	1.89
Per share average fair value of options granted	n.a.	3.43	5.21
<u>Assumptions</u>			
Average risk-free interest rate	n.a.	5.8%	5.6%
Expected volatility	n.a.	19.7	19.4
Expected life of options	n.a.	6 yrs.	6 yrs.

No options were granted in 2000; however, for 1999 and 1998, it was assumed that the annual dividend would be increased \$.01 per share per quarter in the fourth quarter of every odd-numbered year. This assumption was based on the facts and circumstances which existed at the time options were granted and should not be construed to be an indication of future dividend amounts to be paid.

In view of the fact that the fair value method of accounting is applied to option grants only after 1994, the above pro forma data do not reflect the full impact of applying such fair value method to all of Chemed's stock options.

During 1999, the Company purchased 101,500 shares of its capital stock in open-market transactions and sold these shares to certain employees at fair market value in exchange for interest-bearing notes secured by the shares. The outstanding balance, including accrued interest, totals \$2,886,000 at December 31, 2000 (1999—\$2,731,000), and is classified as a reduction of stockholders' equity.

#### 14. TRUST SECURITIES

Effective February 1, 2000, the Company completed an Exchange Offer whereby stockholders exchanged 575,503 shares of capital stock for shares of Trust Securities of the wholly owned Chemed Capital Trust ("Trust") on a one-for-one basis. The Trust Securities, which carry a redemption value of \$27.00 per security, pay an annual cash distribution of \$2.00 per security (payable at the quarterly rate of \$.50 per security commencing March 2000) and are convertible into capital stock at a price of \$37.00 per security. The Trust Securities mature in 30 years and are callable beginning March 15, 2003, at a price of \$27.27 for each \$27.00 principal amount. On March 15, 2004, and later, the Trust Securities are callable without premium.

During 2000, the Company purchased 30,619 Trust Securities in open market transactions, and security owners converted 2,598 Trust Securities into 1,895 shares of capital stock. At December 31, 2000, there were 542,286 Trust Securities outstanding.

The sole assets of the Trust are Junior Subordinated Debentures ("Debentures") of the Company in the principal amount of \$16,019,000. The Debentures mature in March 2030, and the interest rate of the Debentures is \$2.00 per annum per \$27.00 principal amount. In February 2000, the Company executed an Indenture relating to the Debentures, an Amended and Restated Declaration of Trust relating to the Trust Securities and a Guarantee Agreement for the benefit of the holders of the Trust Securities (collectively "Back-up Undertakings"). Considered together, the Back-up Undertakings constitute a full and unconditional guarantee by the Company of the Trust's obligations under the Trust Securities.

## Segment Data

Chemed Corporation and Subsidiary Companies

(in thousands)

For the Years Ended December 31,	2000	1999	1998
<b>Revenues by Type of Service</b>			
Roto-Rooter			
Sewer and drain cleaning . . . . .	\$117,443	\$ 96,629	\$ 75,599
Plumbing repair and maintenance . . . . .	117,102	102,218	80,150
Industrial and municipal sewer and drain cleaning . . . . .	14,234	11,857	10,527
HVAC repair and maintenance . . . . .	13,412	14,928	12,164
Other products and services . . . . .	18,886	17,187	13,610
Total Roto-Rooter . . . . .	<u>281,077</u>	<u>242,819</u>	<u>192,050</u>
Patient Care			
Home health aides . . . . .	90,473	90,580	85,732
Registered nurses . . . . .	22,540	19,900	16,151
Live-in aides . . . . .	7,332	8,138	9,618
Other services . . . . .	16,741	10,262	6,781
Total Patient Care . . . . .	<u>137,086</u>	<u>128,880</u>	<u>118,282</u>
Service America			
Repair service contracts . . . . .	55,048	57,520	56,753
Demand repair services . . . . .	19,182	16,380	14,198
Total Service America . . . . .	<u>74,230</u>	<u>73,900</u>	<u>70,951</u>
Cadre Computer . . . . .	8,292	7,994	—
Total service revenues and sales . . . . .	<u>\$500,685</u>	<u>\$453,593</u>	<u>\$381,283</u>
<b>Aftertax Earnings by Segment<sup>(a)</sup></b>			
Roto-Rooter . . . . .	\$ 20,032	\$ 14,562	\$ 10,530
Patient Care . . . . .	2,084	3,244 <sup>(e)</sup>	3,432
Service America . . . . .	1,058	2,342	2,286
Cadre Computer . . . . .	(159)	42	—
Total segment earnings . . . . .	<u>23,015</u>	<u>20,190</u>	<u>16,248</u>
Corporate			
Gains on sales of investments . . . . .	2,261	2,960	7,945
Overhead . . . . .	(5,128)	(4,701)	(4,955)
Net investing and financing income . . . . .	420	1,247	1,408
Acquisition expenses . . . . .	—	—	(495)
Other . . . . .	16	—	(242)
Net income . . . . .	<u>\$ 20,584</u>	<u>\$ 19,696</u>	<u>\$ 19,909</u>
<b>Interest Income</b>			
Roto-Rooter . . . . .	\$ 95	\$ 19	\$ 191
Patient Care . . . . .	16	15	13
Service America . . . . .	1,077	979	1,126
Cadre Computer . . . . .	2	—	—
Subtotal . . . . .	<u>1,190</u>	<u>1,013</u>	<u>1,330</u>
Corporate . . . . .	564	847	2,913
Intercompany eliminations . . . . .	(217)	(271)	(194)
Total interest income . . . . .	<u>\$ 1,537</u>	<u>\$ 1,589</u>	<u>\$ 4,049</u>

## Segment Data (continued)

	2000	1999	1998
<b>Interest Expense</b>			
Roto-Rooter . . . . .	\$ 2,016	\$ 2,119	\$ 957
Patient Care . . . . .	1,676	760	536
Service America . . . . .	—	—	—
Cadre Computer . . . . .	—	—	—
Subtotal . . . . .	<u>3,692</u>	<u>2,879</u>	<u>1,493</u>
Corporate . . . . .	7,092	7,514	6,759
Intercompany eliminations . . . . .	<u>(4,048)</u>	<u>(3,535)</u>	<u>(1,459)</u>
Total interest expense . . . . .	<u>\$ 6,736</u>	<u>\$ 6,858</u>	<u>\$ 6,793</u>
<b>Income Tax Provision</b>			
Roto-Rooter . . . . .	\$ 14,797	\$ 11,713	\$ 8,744
Patient Care . . . . .	457	1,159	1,144
Service America . . . . .	1,570	2,404	2,405
Cadre Computer . . . . .	<u>(81)</u>	<u>27</u>	<u>—</u>
Subtotal . . . . .	<u>16,743</u>	<u>15,303</u>	<u>12,293</u>
Corporate . . . . .	<u>(4,081)</u>	<u>(4,046)</u>	<u>(77)</u>
Total income tax provision . . . . .	<u>\$ 12,662</u>	<u>\$ 11,257</u>	<u>\$ 12,216</u>
<b>Identifiable Assets</b>			
Roto-Rooter . . . . .	\$190,350	\$183,797	\$175,036
Patient Care . . . . .	84,631	86,277	67,961
Service America . . . . .	72,364	69,632	71,049
Cadre Computer . . . . .	<u>2,347</u>	<u>3,354</u>	<u>—</u>
Total identifiable assets . . . . .	<u>349,692</u>	<u>343,060</u>	<u>314,046</u>
Corporate assets <sup>(b)</sup> . . . . .	<u>71,683</u>	<u>78,243</u>	<u>115,658</u>
Total assets . . . . .	<u>\$421,375</u>	<u>\$421,303</u>	<u>\$429,704</u>
<b>Additions to Long-Lived Assets<sup>(c)</sup></b>			
Roto-Rooter . . . . .	\$ 20,811	\$ 17,208	\$ 27,969
Patient Care . . . . .	1,649	12,001	9,744
Service America . . . . .	7,706	5,111	3,294
Cadre Computer . . . . .	<u>264</u>	<u>416</u>	<u>—</u>
Subtotal . . . . .	<u>30,430</u>	<u>34,736</u>	<u>41,007</u>
Corporate assets <sup>(b)</sup> . . . . .	<u>207</u>	<u>1,010</u>	<u>506</u>
Total additions . . . . .	<u>\$ 30,637</u>	<u>\$ 35,746</u>	<u>\$ 41,513</u>
<b>Depreciation and Amortization<sup>(d)</sup></b>			
Roto-Rooter . . . . .	\$ 13,765	\$ 11,707	\$ 9,378
Patient Care . . . . .	2,817	2,686	2,160
Service America . . . . .	4,273	3,790	3,726
Cadre Computer . . . . .	<u>314</u>	<u>396</u>	<u>—</u>
Subtotal . . . . .	<u>21,169</u>	<u>18,579</u>	<u>15,264</u>
Corporate assets <sup>(b)</sup> . . . . .	<u>2,276</u>	<u>1,550</u>	<u>2,020</u>
Total depreciation and amortization . . . . .	<u>\$ 23,445</u>	<u>\$ 20,129</u>	<u>\$ 17,284</u>

(a) Aftertax earnings represent the net income of the business segments, excluding acquisition expenses.

(b) Corporate assets consist primarily of cash and cash equivalents, marketable securities, properties and equipment and other investments.

(c) Long-lived assets include goodwill, identifiable intangible assets and property and equipment.

(d) Depreciation and amortization include amortization of goodwill, identifiable intangible assets and other assets.

(e) Amount includes \$872,000 aftertax income from favorable adjustments to prior years' cost reports.

# Selected Financial Data

Chemed Corporation and Subsidiary Companies

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

	2000	1999	1998
<b>Summary of Operations</b>			
Continuing operations			
Total service revenues and sales . . . . .	<b>\$500,685</b>	\$453,593	\$381,283
Gross profit . . . . .	<b>197,002</b>	176,834	144,135
Depreciation . . . . .	<b>15,302</b>	13,129	10,649
Income from operations . . . . .	<b>33,468</b>	26,785	19,340
Income from continuing operations before capital gains <sup>(d)</sup> . . . . .	<b>18,323</b>	16,736	11,964
Income from continuing operations . . . . .	<b>20,584</b>	19,696	19,909
Discontinued operations <sup>(a)</sup> . . . . .	—	—	—
Cumulative effect of a change in accounting principle . . . . .	—	—	—
Net income . . . . .	<b>20,584</b>	19,696	19,909
Earnings per share:			
Income from continuing operations before capital gains <sup>(d)</sup> . . . . .	<b>\$ 1.86</b>	\$ 1.60	\$ 1.19
Income from continuing operations . . . . .	<b>2.09</b>	1.88	1.98
Net income . . . . .	<b>2.09</b>	1.88	1.98
Average number of shares outstanding . . . . .	<b>9,833</b>	10,470	10,058
Diluted earnings per share:			
Income from continuing operations before capital gains <sup>(d)</sup> . . . . .	<b>\$ 1.85</b>	\$ 1.59	\$ 1.18
Income from continuing operations . . . . .	<b>2.07</b>	1.87	1.97
Net income . . . . .	<b>2.07</b>	1.87	1.97
Average number of shares outstanding . . . . .	<b>10,305</b>	10,514	10,100
Cash dividends per share . . . . .	<b>\$ .40</b>	\$ 2.12	\$ 2.12
<b>Financial Position—Year-End</b>			
Cash, cash equivalents and marketable securities . . . . .	<b>\$ 10,280</b>	\$ 17,282	\$ 41,358
Working capital . . . . .	<b>(472)</b>	13,374	33,533
Properties and equipment, at cost less accumulated depreciation . . . . .	<b>75,177</b>	71,728	61,721
Total assets . . . . .	<b>421,375</b>	421,303	429,704
Long-term debt . . . . .	<b>58,391</b>	78,580	80,407
Stockholders' equity . . . . .	<b>213,764</b>	212,044	223,356
Book value per share . . . . .	<b>\$ 21.70</b>	\$ 20.40	\$ 21.45
Diluted book value per share . . . . .	<b>22.13</b>	20.31	21.36
<b>Other Statistics—Continuing Operations</b>			
Net cash provided/(used) by continuing operations . . . . .	<b>\$ 51,838</b>	\$ 27,542	\$ 20,778
Capital expenditures . . . . .	<b>19,499</b>	22,411	21,997
Number of employees <sup>(b)</sup> . . . . .	<b>7,591</b>	7,817	7,671
Number of service and sales representatives . . . . .	<b>5,678</b>	5,796	5,759
Dividend payout ratio <sup>(c)</sup> . . . . .	<b>19.1%</b>	112.8%	107.1%
Debt to total capital ratio . . . . .	<b>24.2</b>	29.9	27.5
Return on average equity <sup>(c)</sup> . . . . .	<b>10.0</b>	9.1	8.9
Return on average total capital employed <sup>(c)</sup> . . . . .	<b>8.0</b>	7.7	7.7
Current ratio . . . . .	<b>1.00</b>	1.14	1.37

(a) Discontinued operations include National Sanitary Supply Company and The Omnia Group, discontinued in 1997; accrual adjustments in 1997 relating to the gain on the sale of Omnicare Inc. ("Omnicare"); Omnicare, discontinued in 1994; accrual adjustments from 1992 through 1996 related to the gain on the sale of DuBois Chemicals Inc. ("DuBois"); DuBois, sold in 1991; and adjustments to accruals in 1991 related to operations discontinued in 1986.

(b) Numbers reflect full-time-equivalent employees.

(c) These computations are based on net income and, with respect to return on average capital employed, various related adjustments.

(d) Amounts exclude gains on sales of investments.

1997	1996	1995	1994	1993	1992	1991
\$341,729	\$301,213	\$270,449	\$240,994	\$136,428	\$104,688	\$ 84,774
129,082	118,440	103,412	90,189	54,325	44,750	39,034
8,622	7,353	6,505	5,833	3,914	2,854	2,811
19,482	17,481	14,102	10,703	7,388	4,599	996
9,425	7,386	5,833	3,650	3,289	6,761	4,204
17,077	25,117	11,715	7,027	7,563	8,660	6,788
13,160	7,211	11,467	36,895	10,266	6,991	46,179
—	—	—	—	1,651	—	—
30,237	32,328	23,182	43,922	19,480	15,651	52,967
\$ .95	\$ .75	\$ .59	\$ .37	\$ .34	\$ .69	\$ .42
1.72	2.56	1.19	.71	.78	.89	.68
3.04	3.30	2.36	4.47	2.00	1.60	5.27
9,940	9,801	9,830	9,830	9,756	9,783	10,043
\$ .94	\$ .74	\$ .58	\$ .36	\$ .33	\$ .68	\$ .42
1.71	2.54	1.18	.70	.76	.88	.67
3.02	3.26	2.33	4.42	1.97	1.59	5.27
10,014	9,879	9,898	9,907	9,824	9,838	10,055
\$ 2.09	\$ 2.08	\$ 2.06	\$ 2.04	\$ 2.01	\$ 2.00	\$ 1.97
\$ 70,958	\$ 14,028	\$ 30,497	\$ 24,866	\$ 20,133	\$ 51,142	\$ 82,994
83,103	8,996	7,159	(14,573)	(29,070)	5,574	48,991
53,089	40,661	37,860	35,677	33,873	26,419	25,951
448,838	509,361	476,732	453,801	385,922	363,960	330,712
83,720	158,140	85,317	92,033	97,906	103,580	77,007
228,120	217,891	208,657	186,320	137,151	133,511	139,407
\$ 22.64	\$ 21.89	\$ 21.18	\$ 18.89	\$ 14.00	\$ 13.68	\$ 14.08
22.54	21.76	21.06	18.76	13.91	13.62	14.07
\$ 23,747	\$ 13,519	\$ 5,385	\$ 13,378	\$ 6,029	\$ 8,583	\$ 10,828
20,117	10,988	9,219	9,606	7,420	3,835	7,008
6,849	5,884	5,278	4,497	2,711	1,726	1,666
5,101	4,315	3,835	3,203	1,832	1,090	1,069
68.8%	63.0%	87.3%	45.6%	101.0%	125.0%	37.4%
28.1	44.6	32.8	36.6	44.2	45.2	34.8
13.8	15.3	11.9	28.4	14.3	11.6	42.5
9.9	10.9	9.3	16.4	9.7	8.7	24.4
1.88	1.10	1.07	.86	.68	1.08	1.82

# Supplemental Revenue and Profit Statistics by Business Segment

Chemed Corporation and Subsidiary Companies

(in thousands, except percentages and footnote data)

	Continuing Operations				Total
	Roto- Rooter	Patient Care	Service America	Other	
<b>Service Revenues and Sales</b>					
<b>2000</b> .....	<b>\$281,077</b>	<b>\$137,086</b>	<b>\$ 74,230</b>	<b>\$ 8,292</b>	<b>\$500,685</b>
1999 .....	242,819	128,880	73,900	7,994	453,593
1998 .....	192,050	118,282	70,951	—	381,283
1997 .....	153,883	121,143	66,703	—	341,729
1996 .....	140,163	99,565	61,485	—	301,213
1995 .....	121,999	90,727	57,723	—	270,449
1994 .....	109,098	69,064	62,832	—	240,994
1993 .....	95,555	—	40,873	—	136,428
1992 .....	86,185	—	18,503	—	104,688
1991 .....	79,217	—	5,557	—	84,774
<b>Percent of Total</b>					
<b>2000</b> .....	<b>56%</b>	<b>27%</b>	<b>15%</b>	<b>2%</b>	<b>100%</b>
1991 .....	93	—	7	—	100
<b>Operating Profit<sup>(a)</sup></b>					
<b>2000</b> .....	<b>\$ 36,637</b>	<b>\$ 4,203</b>	<b>\$ 1,396</b>	<b>\$ (242)</b>	<b>\$ 41,994</b>
1999 .....	26,310	5,157 <sup>(d)</sup>	3,679	71	35,217
1998 .....	19,244 <sup>(b)</sup>	5,104	3,491	—	27,839
1997 .....	17,256	5,541	3,443	—	26,240
1996 .....	15,707	5,592	2,503	—	23,802
1995 .....	13,134 <sup>(c)</sup>	4,923	1,906	—	19,963
1994 .....	12,071	2,772	3,061	—	17,904
1993 .....	9,854	—	3,708	—	13,562
1992 .....	8,626	—	1,841	—	10,467
1991 .....	7,328	—	581	—	7,909
<b>Percent of Total</b>					
<b>2000</b> .....	<b>87%</b>	<b>10%</b>	<b>3%</b>	<b>—</b>	<b>100%</b>
1991 .....	93	—	7	—	100

(a) Operating profit is total service revenues and sales less operating expenses and includes 100% of all consolidated operations. In computing operating profit, none of the following items has been added or deducted: general corporate expenses, interest expense, and other income—net.

(b) Amount includes \$752,000 of expenses incurred in connection with pooling-of-interest business combinations in 1998.

(c) Amount includes nonrecurring charges of \$538,000 incurred as a result of discussions related to Chemed's proposal to acquire the 42% minority interest in Roto-Rooter.

(d) Amount includes \$1,453,000 pretax income from favorable adjustments to prior years' cost reports.

# Unaudited Summary of Quarterly Results

Chemed Corporation and Subsidiary Companies

(in thousands, except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
<b>2000</b>					
<b>Total Service Revenues and Sales</b> . . . . .	<b>\$121,534</b>	<b>\$125,218</b>	<b>\$123,781</b>	<b>\$130,152</b>	<b>\$500,685</b>
<b>Gross profit</b> . . . . .	<b>\$ 47,407</b>	<b>\$ 49,344</b>	<b>\$ 49,243</b>	<b>\$ 51,008</b>	<b>\$197,002</b>
<b>Income from operations</b> . . . . .	<b>\$ 7,539</b>	<b>\$ 9,183</b>	<b>\$ 7,837</b>	<b>\$ 8,909</b>	<b>\$ 33,468</b>
<b>Interest expense</b> . . . . .	<b>(1,782)</b>	<b>(1,787)</b>	<b>(1,664)</b>	<b>(1,503)</b>	<b>(6,736)</b>
<b>Distributions on preferred securities</b> . . . . .	<b>(288)</b>	<b>(286)</b>	<b>(282)</b>	<b>(341)</b>	<b>(1,197)</b>
<b>Other income—net</b> . . . . .	<b>2,396</b>	<b>2,793</b>	<b>1,916</b>	<b>606</b>	<b>7,711</b>
<b>Income before income taxes</b> . . . . .	<b>7,865</b>	<b>9,903</b>	<b>7,807</b>	<b>7,671</b>	<b>33,246</b>
<b>Income taxes</b> . . . . .	<b>(2,963)</b>	<b>(3,790)</b>	<b>(3,172)</b>	<b>(2,737)</b>	<b>(12,662)</b>
<b>Net Income</b> . . . . .	<b>\$ 4,902</b>	<b>\$ 6,113</b>	<b>\$ 4,635</b>	<b>\$ 4,934</b>	<b>\$ 20,584</b>
<b>Earnings Per Share</b>					
<b>Net income</b> . . . . .	<b>\$ .49</b>	<b>\$ .62</b>	<b>\$ .48</b>	<b>\$ .51</b>	<b>\$ 2.09</b>
<b>Average number of shares outstanding</b> . . . . .	<b>10,064</b>	<b>9,797</b>	<b>9,742</b>	<b>9,728</b>	<b>9,833</b>
<b>Diluted Earnings Per Share</b>					
<b>Net income</b> . . . . .	<b>\$ .48</b>	<b>\$ .61</b>	<b>\$ .47</b>	<b>\$ .50</b>	<b>\$ 2.07</b>
<b>Average number of shares outstanding</b> . . . . .	<b>10,448</b>	<b>10,295</b>	<b>10,253</b>	<b>10,276</b>	<b>10,305</b>
<b>1999</b>					
<b>Total Service Revenues and Sales</b> . . . . .	<b>\$105,735</b>	<b>\$111,385</b>	<b>\$114,428</b>	<b>\$122,045</b>	<b>\$453,593</b>
<b>Gross profit</b> . . . . .	<b>\$ 40,676</b>	<b>\$ 43,012</b>	<b>\$ 44,390</b>	<b>\$ 48,756</b>	<b>\$176,834</b>
<b>Income from operations</b> . . . . .	<b>\$ 5,792</b>	<b>\$ 6,199</b>	<b>\$ 7,844</b>	<b>\$ 6,950</b>	<b>\$ 26,785</b>
<b>Interest expense</b> . . . . .	<b>(1,594)</b>	<b>(1,507)</b>	<b>(1,448)</b>	<b>(2,309)</b>	<b>(6,858)</b>
<b>Other income—net</b> . . . . .	<b>4,609</b>	<b>3,735</b>	<b>1,128</b>	<b>1,554</b>	<b>11,026</b>
<b>Income before income taxes</b> . . . . .	<b>8,807</b>	<b>8,427</b>	<b>7,524</b>	<b>6,195</b>	<b>30,953</b>
<b>Income taxes</b> . . . . .	<b>(3,452)</b>	<b>(3,313)</b>	<b>(3,112)</b>	<b>(1,380)</b>	<b>(11,257)</b>
<b>Net Income</b> . . . . .	<b>\$ 5,355</b>	<b>\$ 5,114</b>	<b>\$ 4,412</b>	<b>\$ 4,815</b>	<b>\$ 19,696</b>
<b>Earnings Per Share</b>					
<b>Net income</b> . . . . .	<b>\$ .51</b>	<b>\$ .49</b>	<b>\$ .42</b>	<b>\$ .46</b>	<b>\$ 1.88</b>
<b>Average number of shares outstanding</b> . . . . .	<b>10,471</b>	<b>10,473</b>	<b>10,480</b>	<b>10,455</b>	<b>10,470</b>
<b>Diluted Earnings Per Share</b>					
<b>Net income</b> . . . . .	<b>\$ .51</b>	<b>\$ .49</b>	<b>\$ .42</b>	<b>\$ .46</b>	<b>\$ 1.87</b>
<b>Average number of shares outstanding</b> . . . . .	<b>10,516</b>	<b>10,512</b>	<b>10,527</b>	<b>10,500</b>	<b>10,514</b>

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

Chemed Corporation and Subsidiary Companies

## FINANCIAL CONDITION

### LIQUIDITY AND CAPITAL RESOURCES

Significant factors affecting the Company's consolidated cash flows during 2000 and financial position at December 31, 2000, include the following:

- Operations generated cash of \$51.8 million;
- Capital expenditures totaled \$19.5 million;
- The Company reduced its long-term debt by \$17.0 million;
- Shareholders exchanged shares of capital stock for the shares of Convertible Trust Preferred Securities ("Trust Securities") with a redemption value of \$15.5 million; and
- The Company used \$11.5 million of cash to finance purchase business combinations.

As a result of the \$17.0 million reduction of long-term debt, the ratio of total debt (excluding the Trust Securities) to total capital declined from 30% at December 31, 1999, to 24% at December 31, 2000. The Company's current ratio at December 31, 2000, was 1.0 as compared with 1.1 at December 31, 1999.

The Company had \$104.4 million of unused lines of credit with various banks at December 31, 2000.

### CASH FLOW

The Company's cash flows for 2000 and 1999 are summarized as follows (in millions):

	For the Years Ended December 31,	
	<u>2000</u>	<u>1999</u>
Cash from continuing operations	\$ 51.8	\$ 27.5
Capital expenditures	(19.5)	(22.4)
Operating cash excess after capital expenditures	32.3	5.1
Net increase/(decrease) in long-term debt (excluding ESOP debt)	(17.0)	7.0
Business combinations	(11.5)	(15.5)
Purchases of treasury stock	(5.7)	(1.7)
Cash dividends	(4.0)	(22.5)
Proceeds from sales of investments	4.3	7.7
Net uses for		
discontinued operations	(3.7)	(2.5)
Other—net	(1.7)	(1.7)
Decrease in cash and cash equivalents	\$ (7.0)	\$(24.1)

For 2000, the operating cash excess after capital expenditures was \$32.3 million as compared with \$5.1 million in 1999. This excess was available to fund debt repayment, business combinations and dividend requirements.

The reduction in cash dividends during 2000 is attributable to the November 1999 change in dividend policy, which will enable the Company to take better advantage of future growth possibilities. Under this policy, the quarterly cash dividend for 2000 was reduced to \$.10 per share from the level of \$.53 per share paid the previous nine quarters. In February 2001, a cash dividend of \$.11 per share was declared (payable on March 9 to holders of record February 19, 2001).

During February 2000, the Company completed an Exchange Offer whereby stockholders were permitted to exchange shares of capital stock for Trust Securities on a one-for-one basis. The Trust Securities pay an annual cash distribution of \$2.00 per security and are convertible into capital stock at a price of \$37.00 per security. A total of 575,503 capital shares was exchanged for Trust Securities with a redemption value of approximately \$15.5 million.

The Trust Securities mature in 30 years and are callable at a price of \$27.27 for each \$27.00 redemption amount beginning March 15, 2003, and are callable without premium beginning March 15, 2004. During 2000, the Company purchased approximately \$800,000 of Trust Securities in open market transactions.

### COMMITMENTS AND CONTINGENCIES

In connection with the sale of DuBois Chemicals Inc. ("DuBois"), the Company provided allowances and accruals relating to several long-term costs, including income tax matters, lease commitments and environmental costs. Also, in conjunction with the sales of The Omnia Group and National Sanitary Supply Company in 1997, the Company provided long-term allowances and accruals relating to costs of severance arrangements, lease commitments and income tax matters. In the aggregate, the Company believes these allowances and accruals are adequate as of December 31, 2000.

Based on a recent review of Chemed's environmental-related liabilities under the DuBois sale agreement, the Company has estimated its liabilities to be \$3.0 million. As of December 31, 2000, the Company is contingently liable for additional cleanup and related costs up to a maximum of \$18.1 million, for which no provision has been recorded.

The Company's various loan agreements and guarantees of indebtedness contain certain restrictive covenants; however, management believes that such covenants will not adversely affect the operations of the Company. Under the most restrictive of these covenants, the Company projects that it can incur additional debt of approximately \$64 million as of December 31, 2000.

Since 1991, the Company has carried an investment in the mandatorily redeemable preferred stock (\$27 million par value; \$27.2 million carrying and redemption values) of Vitas Healthcare Corporation ("Vitas"), a privately held provider of hospice services to the terminally ill. During the past several fiscal years, Vitas has increased its net income and is continuing to pursue various long-term financing alternatives. During 2000, Vitas and the Company agreed to extend the redemption dates on the preferred stock to May 1, 2001, to facilitate Vitas' pursuit of long-term financing alternatives. It is considered reasonably possible that the redemption date will again be extended in 2001.

During 2000, Vitas made payments of \$3.8 million on preferred dividends, including \$715,000 that was in arrears at December 31, 1999. In addition, Vitas made timely payment of the fourth quarter preferred dividend due in January 2001. On the basis of information currently available, management believes its investment in Vitas is fully recoverable and that no impairment exists.

It is management's opinion that the Company has no long-range commitments that would have a significant impact on its liquidity, financial condition or the results of its operations. Due to the nature of the environmental liabilities, it is not possible to forecast the timing of the cash payments for these potential liabilities. Based on the Company's available credit lines, sources of borrowing and liquid investments, management believes its sources of capital and liquidity are satisfactory for the Company's needs for the foreseeable future.

## RESULTS OF OPERATIONS

Set forth below by business segment are the growth in sales and service revenues and the aftertax earnings margin:

	Percent Increase in Service Revenues and Sales		
	<b>2000</b> <b>vs. 1999</b>	1999 vs. 1998	
Roto-Rooter	<b>16%</b>		26%
Patient Care	<b>6</b>		9
Service America	<b>—</b>		4
Cadre Computer	<b>4</b>		n.a.
Total	<b>10</b>		19

	Aftertax Earnings/(Loss) as a Percent of Service Revenues and Sales (Aftertax Margin)		
	<b>2000</b>	1999	1998
Roto-Rooter	<b>7.1%</b>	6.0%	5.5%
Patient Care	<b>1.5</b>	2.5	2.9
Service America	<b>1.4</b>	3.2	3.2
Cadre Computer	<b>(1.9)</b>	.5	n.a.
Total	<b>4.6</b>	4.5	4.3

### 2000 VERSUS 1999

The Roto-Rooter segment recorded service revenues and sales of \$281,077,000 during 2000, an increase of 16% versus revenues of \$242,819,000 in 1999. This growth was attributable primarily to Roto-Rooter's plumbing and sewer and drain cleaning businesses, which recorded revenue increases of 15% and 22%, respectively, for 2000. Excluding businesses acquired in 2000 and 1999, this segment's total revenues and net income for 2000 increased 11% and 37%, respectively, versus amounts recorded in 1999. Including acquisitions, Roto-Rooter recorded a 38% increase in aftertax earnings for 2000. The aftertax margin of this segment increased 1.1%, primarily due to the favorable impact of pricing increases on the gross profit margin.

Revenues of the Patient Care segment increased 6% from \$128,880,000 in 1999 to \$137,086,000 in 2000. Higher labor costs, as a percent of revenues, are primarily responsible for the decline in the aftertax margin from 2.5% in 1999 to 1.5% in 2000.

The Service America segment recorded total revenues of \$74,230,000 during 2000, essentially the same level as 1999's revenues of \$73,900,000. Service America's revenues from demand services for 2000, which account for approximately 26% of total revenues, increased 17% versus demand revenues for 1999. As anticipated, revenues from repair service contracts for 2000 declined 4% versus revenues in 1999. For 2000, aftertax earnings declined 55%, and the aftertax margin declined 1.8 percentage points in 2000 as compared with 1999 results. The reasons for these declines were higher medical and casualty insurance costs and higher fuel costs incurred in 2000.

During 2000, Cadre Computer recorded service revenues and sales of \$8,292,000, an increase of 4% versus revenues and sales for 1999. A decline in revenues from software development is largely responsible for the \$159,000 aftertax loss recorded by this operation in 2000.

Income from operations increased from \$26,785,000 in 1999 to \$33,468,000 in 2000, as a result of significantly higher operating profit recorded by Roto-Rooter during 2000.

Also reflecting a strong operational performance by Roto-Rooter in 2000, earnings before interest, taxes, depreciation and amortization ("EBITDA"), excluding capital gains and acquisition expenses, totaled \$59,263,000 in 2000, an increase of 14% versus EBITDA for 1999.

Interest expense for 2000 totaled \$6,736,000 versus expense of \$6,858,000 recorded in 1999.

Other income declined from \$11,026,000 in 1999 to \$7,711,000 in 2000, primarily as a result of lower gains on the sales of investments and lower gains on assets held in deferred compensation trusts in 2000. The lower level of interest income in 2000 is due primarily to a reduction of average levels of cash equivalents resulting from the use of cash to finance acquisitions and repay long-term borrowings.

The Company's effective income tax rate was 38.1% in 2000 as compared with 36.4% in 1999. The lower effective rate in 1999 was largely attributable to adjustments recorded during 1999 from the finalization of federal income tax audits for prior years.

Net income increased 5% from \$19,696,000 (\$1.88 per share or \$1.87 per diluted share) in 1999 to \$20,584,000 (\$2.09 per share or \$2.07 per diluted share) in 2000. Excluding aftertax realized investment gains (\$2,261,000 in 2000 and \$2,960,000 in 1999), earnings per share increased 16% from \$1.60 per share to \$1.86 per share in 2000. Similarly, diluted earnings per share excluding investment gains increased 16% from \$1.59 per share in 1999 to \$1.85 per share in 2000.

#### **1999 VERSUS 1998**

The Roto-Rooter segment recorded service revenues and sales of \$242,819,000 during 1999, an increase of 26% versus revenues of \$192,050,000 in 1998. This growth was attributable primarily to Roto-Rooter's plumbing and sewer and drain cleaning businesses, both of which recorded 28% revenue increases for the 1999 period. Excluding businesses acquired in 1998 and 1999, this segment's total revenues and net income for 1999 increased 14% and 30%, respectively, versus amounts recorded in 1998. Roto-Rooter recorded a 38% increase in aftertax earnings for 1999. The aftertax margin of this segment increased .5%, primarily due to an increase in the gross profit margin.

Revenues of the Patient Care segment increased 9% from \$118,282,000 in 1998 to \$128,880,000 in 1999. Excluding the revenues of businesses acquired in 1998 and 1999, revenues for 1999 declined 2% versus revenues for 1998. This revenue decline was anticipated and is primarily attributable to the implementation of the Medicare provisions of the Balanced Budget Act of 1997. Higher workers' compensation costs, as a percent of revenues, are primarily responsible for the decline in the aftertax margin from 2.9% in 1998 to 2.5% in 1999.

The Service America segment recorded total revenues of \$73,900,000 during 1999, an increase of 4% versus revenues of \$70,951,000 recorded in 1998. Demand service revenues for 1999 increased 15% versus such revenues for 1998. Aftertax earnings for 1999 increased 2% versus aftertax earnings for 1998. The aftertax margin of this segment was 3.2% in both 1999 and 1998.

Income from operations increased from \$19,340,000 in 1998 to \$26,785,000 in 1999, primarily as a result of significantly higher operating profit recorded by Roto-Rooter during 1999.

Also reflecting a strong performance by Roto-Rooter in 1999, EBITDA, excluding capital gains and acquisition expenses, totaled \$52,109,000 in 1999, an increase of 21% versus EBITDA for 1998.

Interest expense for 1999 totaled \$6,858,000 versus expense of \$6,793,000 recorded in 1998.

Other income declined from \$19,578,000 in 1998 to \$11,026,000 in 1999, primarily as a result of lower gains on the sales of investments and lower interest income in 1999.

The Company's effective income tax rate was 36.4% in 1999 as compared with 38.0% in 1998. The decline in the effective rate was largely attributable to adjustments recorded during 1999 from the finalization of federal income tax audits for prior years.

Net income declined from \$19,909,000 (\$1.98 per share or \$1.97 per diluted share) in 1998 to \$19,696,000 (\$1.88 per share or \$1.87 per diluted share) in 1999. Excluding acquisition expenses in 1998 (\$495,000 or \$.05 per share) and realized investment gains (\$2,960,000 in 1999 and \$7,945,000 in 1998), aftertax income increased 34% from \$12,459,000 in 1998 (\$1.24 per share or \$1.23 per diluted share) to \$16,736,000 (\$1.60 per share or \$1.59 per diluted share) in 1999.

## **REGULATORY ENVIRONMENT**

Healthcare reform legislation enacted by Congress challenges healthcare providers to provide quality services while facing mounting pressure to contain costs associated with entitlement programs funded by the federal government. Patient Care is adapting to the demands of this regulatory environment by leveraging its existing infrastructure to increase productivity.

## **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 subject to certain known and unknown risks, uncertainties, contingencies and other factors. Such forward-looking statements and trends include, but are not limited to, those relating to the leveraging of costs, the impact of laws and regulations on Company operations, the recoverability of deferred tax assets and other factors. Any or all of these factors could cause actual results to differ materially from these statements and trends. The Company's ability to deal with the unknown outcomes of these events, many of which are beyond the control of the Company, may affect the reliability of its projections and other financial matters.

# Corporate Officers and Directors

## CORPORATE OFFICERS

**Edward L. Hutton**  
Chairman &  
Chief Executive Officer

**Kevin J. McNamara**  
President

**Timothy S. O'Toole**  
Executive Vice President  
& Treasurer

**Spencer S. Lee**  
Executive Vice President

**Paul C. Voet**  
Executive Vice President

**Sandra E. Laney**  
Senior Vice President &  
Chief Administrative Officer

**Arthur V. Tucker, Jr.**  
Vice President & Controller

**Naomi C. Dallob**  
Vice President & Secretary

**James H. Devlin**  
Vice President

**Thomas C. Hutton**  
Vice President

**David J. Lohbeck**  
Vice President

**John M. Mount**  
Vice President

**David G. Sparks**  
Vice President

**Janelle M. Jessie**  
Assistant Vice President

**Anthony D. Vamvas III**  
Assistant Vice President

**Paula W. Kittner**  
Assistant Treasurer

**Mark W. Stephens**  
Assistant Treasurer

**Marianne Lamey**  
Assistant Controller

**Laura A. Volker**  
Assistant Controller

**Lisa A. Dittman**  
Assistant Secretary

**Joyce A. Lawrence**  
Assistant Secretary

## DIRECTORS

**Edward L. Hutton**  
Chairman & Chief Executive  
Officer, Chemed Corporation

**Kevin J. McNamara**  
President, Chemed Corporation

**Rick L. Arquilla**  
President & Chief Operating Officer,  
Roto-Rooter Services Company

**James H. Devlin**  
Vice President, Chemed Corporation

**Charles H. Erhart, Jr.**  
Former President, W.R. Grace & Co.  
(retired)

**Joel F. Gemunder**  
President, Omnicare Inc.

**Patrick P. Grace**  
President, Kingdom Group LLC

**Thomas C. Hutton**  
Vice President,  
Chemed Corporation

**Walter L. Krebs**  
Former Senior Vice President  
& Chief Financial Officer,  
Service America Systems Inc.  
(retired)

**Sandra E. Laney**  
Senior Vice President &  
Chief Administrative Officer,  
Chemed Corporation

**Spencer S. Lee**  
Executive Vice President,  
Chemed Corporation;  
Chairman & Chief Executive Officer,  
Roto-Rooter Inc.

**John M. Mount**  
Vice President, Chemed Corporation;  
President & Chief Executive Officer,  
Service America Systems Inc.

**Timothy S. O'Toole**  
Executive Vice President  
& Treasurer, Chemed Corporation;  
Chairman & Chief Executive Officer,  
Patient Care Inc.

**Donald E. Saunders**  
Former President,  
DuBois Chemicals Division,  
DiverseyLever Inc. (retired)

**Paul C. Voet**  
Executive Vice President,  
Chemed Corporation

**George J. Walsh III**  
Partner, Gould & Wilkie LLP  
(Law Firm, New York, New York)

# Corporate Information

## CORPORATE HEADQUARTERS

Chemed Corporation  
2600 Chemed Center  
255 East Fifth Street  
Cincinnati, Ohio 45202-4726  
513-762-6900  
www.chemed.com

## TRANSFER AGENTS & REGISTRARS

Individuals of record needing address changes, account balances, account consolidations, replacement of lost certificates or lost checks, dividend reinvestment plan statements, 1099s, or assistance with other administrative matters relating to Chemed Capital Stock and Convertible Trust Preferred Securities should direct their inquiries to the designated transfer agent listed below.

### *Chemed Capital Stock Transfer Agent & Registrar:*

Wells Fargo Bank Minnesota, N.A., Shareowner Services  
P.O. Box 64854  
St. Paul, Minnesota 55164-0854  
Telephone: 800-468-9716 (toll-free)  
Web site: www.wellsfargo.com/com/shareowner\_services

All questions relating to administration of *Chemed Capital Stock* must be handled by *Wells Fargo*.

### *Convertible Trust Preferred Securities Transfer Agent & Registrar:*

Firststar Bank, N.A.  
Corporate Trust Services  
1555 North RiverCenter Drive, Suite 301  
Milwaukee, Wisconsin 53212  
Telephone: 800-637-7549 (toll-free)  
Web site: www.firststarcorporatetrust.com

All questions relating to administration of *Convertible Trust Preferred Securities* must be handled by *Firststar*.

## CORPORATE INQUIRIES

Questions concerning company operations and financial results should be directed to Timothy S. O'Toole, Executive Vice President & Treasurer, at Chemed corporate headquarters by writing or by calling 800-2CHEMED (800-224-3633) or 513-762-6702.

Annual and quarterly reports, press releases, and other printed materials may be obtained from Chemed Investor Relations by writing or by calling 800-2CHEMED (800-224-3633) or 513-762-6463. Printed materials may also be viewed and downloaded from Chemed's Web site at www.chemed.com.

## INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP  
Cincinnati, Ohio 45202

## FORM 10-K

Additional information about Chemed is available in the Annual Report on Form 10-K. Chemed Investor Relations will furnish copies without charge.

## DIVIDEND REINVESTMENT PLAN FOR HOLDERS OF 25 OR MORE SHARES

The Chemed Automatic Dividend Reinvestment Plan is available to Chemed shareholders of record owning a minimum of 25 shares of *Chemed Capital Stock*. A plan brochure, including fee schedule, and enrollment information are available from the Dividend Reinvestment Agent, Wells Fargo Bank Minnesota, N.A., at the address listed above. **Convertible Trust Preferred Securities are not eligible to participate in this Plan.**

## ANNUAL MEETING

The Annual Meeting of Shareholders of Chemed Capital Stock will be held on Monday, May 21, 2001, at 2 p.m. in the Grand Ballroom of The Phoenix Club, 812 Race Street, Cincinnati, Ohio.

## NUMBER OF SHAREHOLDERS

The approximate number of shareholders of record of Chemed Capital Stock was 3,850 on December 31, 2000, and 4,864 on December 31, 1999. (These numbers do not include shareholders with shares held under beneficial ownership or within clearinghouse positions of brokerage firms and banks nor holders of preferred securities.)

## STOCK EXCHANGE LISTINGS

Chemed Capital Stock is listed on the New York Stock Exchange under the ticker symbol CHE. Chemed Convertible Trust Preferred Securities are listed on the NASDAQ Over-the-Counter Bulletin Board under the symbol CHEQP.

## CAPITAL STOCK & DIVIDEND DATA

The high and low closing prices for Chemed Capital Stock during 2000 and 1999 as reported in *The Wall Street Journal* and dividends per share paid by quarter during these years are shown below:

	Closing		Dividends Paid
	High	Low	
<b>2000</b>			
<b>First Quarter</b>	<b>\$31.44</b>	<b>\$27.00</b>	<b>\$.10</b>
<b>Second Quarter</b>	<b>31.19</b>	<b>27.50</b>	<b>.10</b>
<b>Third Quarter</b>	<b>32.31</b>	<b>27.75</b>	<b>.10</b>
<b>Fourth Quarter</b>	<b>36.56</b>	<b>30.94</b>	<b>.10</b>
1999			
First Quarter	\$33.81	\$25.75	\$.53
Second Quarter	33.88	26.31	.53
Third Quarter	33.44	29.25	.53
Fourth Quarter	30.13	24.94	.53

**Chemed Corporation**  
**2600 Chemed Center**  
**255 East Fifth Street**  
**Cincinnati, Ohio 45202-4726**

**Visit our company Web sites at [www.chemed.com](http://www.chemed.com), [www.rotorooter.com](http://www.rotorooter.com), [www.serviceamerica.com](http://www.serviceamerica.com),  
[www.patientcare.com](http://www.patientcare.com), and [www.cadre.net](http://www.cadre.net).**

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