



# CHEMED CORPORATION

## 2010 ANNUAL REPORT





Publicly traded on the New York Stock Exchange under the symbol CHE, Chemed Corporation operates through two wholly owned subsidiaries, VITAS Healthcare Corporation and Roto-Rooter. VITAS is the nation's largest provider of end-of-life hospice care, and Roto-Rooter is North America's largest provider of plumbing and drain cleaning services. Founded in 1971, Chemed is headquartered in Cincinnati, Ohio.



VITAS focuses on noncurative hospice care that helps make terminally ill patients' final days as comfortable and pain-free as possible. Through its teams of nurses, home health aides, doctors, social workers, clergy, and volunteers, VITAS provides direct medical services to patients, as well as spiritual and emotional counseling to both patients and their families. In 2010, VITAS cared for more than 70,000 patients totaling over 4.5 million days of care throughout 15 states and the District of Columbia. Approximately 97% of days of care is provided in the patients' homes with additional high-acuity care provided in dedicated inpatient units located in hospitals, nursing homes, and assisted-living/residential-care facilities for the elderly.



Roto-Rooter operates through more than 110 company-owned branches and independent contractors and over 400 franchisees. The total Roto-Rooter system offers services to more than 90% of the U.S. population and approximately 40% of the Canadian population. Roto-Rooter also has licensed master franchisees in the republics of Indonesia and Singapore, Japan, and the Philippines.

Roto-Rooter® is a registered trademark of Roto-Rooter Corporation. VITAS® and Innovative Hospice Care® are registered trademarks of VITAS Healthcare Corporation.

# ***Financial Review***

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## **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

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

*Report of Independent Registered Public Accounting Firm*

To the Board of Directors and Stockholders of Chemed Corporation :

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

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

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

*PricewaterhouseCoopers* LLP

Cincinnati, Ohio  
February 28, 2011

# CONSOLIDATED STATEMENT OF INCOME

Chemed Corporation and Subsidiary Companies

(in thousands, except per share data)

For the Years Ended December 31,

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

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

# CONSOLIDATED BALANCE SHEET

Chemed Corporation and Subsidiary Companies

(in thousands, except shares and per share data)

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

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

Chemed Corporation and Subsidiary Companies  
(in thousands)

For the Years Ended December 31,

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

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

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

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

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

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



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Chemed Corporation and Subsidiary Companies

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## 1. Summary of Significant Accounting Policies

### *NATURE OF OPERATIONS*

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

### *PRINCIPLES OF CONSOLIDATION*

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

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

### *CASH EQUIVALENTS*

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

### *ACCOUNTS AND LOANS RECEIVABLE AND CONCENTRATION OF RISK*

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

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

As of December 31, 2010, VITAS has approximately \$2.8 million in unbilled revenue included in accounts receivable (December 31, 2009 - \$9.9 million). The unbilled revenue at VITAS relates to hospice programs currently undergoing focused medical reviews (“FMR”). During FMR, surveyors working on behalf of the U.S. Federal government review certain patient files for compliance with Medicare regulations. During the time the patient file is under review, we are unable to bill for care provided to those patients. We make appropriate provisions to reduce our accounts receivable balance for any governmental or other payer reviews resulting in denials of patient service revenue. We believe our hospice programs comply with all payer requirements at the time of billing. However, we cannot predict whether future billing reviews or similar audits by payers will result in material denials or reductions in revenue.

### *INVENTORIES*

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

### *DEPRECIATION AND PROPERTIES AND EQUIPMENT*

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

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

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

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

### *GOODWILL AND INTANGIBLE ASSETS*

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

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

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

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

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

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

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

### *LONG-LIVED ASSETS*

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

#### *OTHER ASSETS*

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

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

#### *REVENUE RECOGNITION*

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

#### *CHARITY CARE*

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

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

#### *SALES TAX*

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

#### *GUARANTEES*

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

#### *OPERATING EXPENSES*

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

#### *ADVERTISING*

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

#### *COMPUTATION OF EARNINGS PER SHARE*

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

#### *STOCK-BASED COMPENSATION PLANS*

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

#### *INSURANCE ACCRUALS*

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

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

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

#### *TAXES ON INCOME*

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

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

#### *ESTIMATES*

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

#### *CONTINGENCIES*

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

## **2. Hospice Revenue Recognition**

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

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

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

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

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

We actively monitor each of our hospice programs, by provider number, as to their specific admission, discharge rate and median length of stay data in an attempt to determine whether revenues are likely to exceed the annual per-beneficiary Medicare cap. Should we determine that revenues for a program are likely to exceed the Medicare cap based on projected trends, we attempt to institute corrective actions, which include changes to the patient mix and increased patient admissions. However, should we project our corrective action will not prevent that program from exceeding its Medicare cap, we estimate the amount of revenue recognized during the period that will require repayment to the Federal government under the Medicare cap and record the amount as a reduction to service revenue.

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

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



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

The U.S. government revises hospice reimbursement rates on an annual basis using the Hospice Wage Index (HWI) and the Consumer Price Index plus a phase out of the Budget Neutrality Adjustment Factor (BNAF). The HWI is geographically adjusted to reflect local differences in wages. The BNAF is a portion of inflation calculated in prior years that is being eliminated or phased out over a seven year period. In August 2008, the U.S. government announced a 25% reduction in the BNAF for its fiscal 2009 (October 2008 through September 2009) pursuant to a three year phase-out of the BNAF. The February 2009 American Recovery and Reinvestment Act mandated a one year delay in the BNAF phase-out. As a result, included in the twelve months ended December 31, 2009, is \$1.95 million of revenue for the retroactive price increase related to services provided by VITAS in the fourth quarter of 2008.

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

### 3. Long-Term Debt and Lines of Credit

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

#### 2007 REFINANCING

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

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

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

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

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

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

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

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

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

	December 31,	
	2010	2009
Principal amount of convertible debentures	\$ 186,956	\$ 186,956
Unamortized debt discount	(27,748)	(34,829)
Carrying amount of convertible debentures	<u>\$ 159,208</u>	<u>\$ 152,127</u>
Additional paid in capital (net of tax)	<u>\$ 31,310</u>	<u>\$ 31,310</u>

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

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

The unamortized debt discount is amortized using the effective interest method over the remaining life of the Notes. The effective rate on the Notes after adoption of the standard is 6.875%.

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

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

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

<b>2010</b>	<b>\$ 4,113</b>
2009	4,667
2008	5,628

#### DEBT COVENANTS

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

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

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

#### 4. Stock-Based Compensation Plans

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

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

In May 2009, the CIC approved a new stock-price target portion of the Company's LTIP. The new stock price hurdles are as follows:



<b>Stock Price Hurdle</b>	<b>Shares to be Issued</b>
\$ 54.00	22,500
\$ 58.00	33,750
\$ 62.00	33,750
Total	90,000

The stock price hurdles must be achieved during 30 trading days out of any 60 trading day period during the three years ending February 28, 2012.

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

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

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

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

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

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

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

The following table summarizes stock option and award activity:

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

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

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

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

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

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

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

## 5. Segments and Nature of the Business

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

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

- The VITAS segment provides hospice services for patients with severe, life-limiting illnesses. This type of care is aimed at making the terminally ill patient's end of life as comfortable and pain-free as possible. Hospice care is typically available to patients who have been initially certified or re-certified as terminally ill (i.e., a prognosis of six months or less) by their attending physician, if any, and the hospice physician. VITAS offers all levels of hospice care in a given market, including routine home care, inpatient care and continuous care. Over 90% of VITAS' revenues are derived through the Medicare and Medicaid reimbursement programs.
- The Roto-Rooter segment provides repair and maintenance services to residential and commercial accounts using the Roto-Rooter registered service marks. Such services include plumbing and sewer, drain and pipe cleaning. They are delivered through company-owned and operated territories, independent contractor-operated territories and franchised locations. This segment also manufactures and sells products and equipment used to provide such services.
- We report corporate administrative expenses and unallocated investing and financing income and expense not directly related to either segment as "Corporate". Corporate administrative expense includes the stewardship, accounting and reporting, legal, tax and other costs of operating a publicly held corporation. Corporate investing and financing income and expenses include the costs and income associated with corporate debt and investment arrangements. Historically, we have recorded stock award amortization as a corporate expense. In the first quarter of 2010, our CODM determined that this was an on-going, operational expense and should be reported within the appropriate business segment. Accordingly, stock award amortization has been reclassified to the corresponding business segment for all periods presented.

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

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

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

**6. Goodwill and Intangible Assets**

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

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

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

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

**7. Other Operating Expenses**

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

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

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

## 8. Business Combinations

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

Working capital	\$	268
Identifiable intangible assets		589
Goodwill		8,225
Other assets and liabilities - net		387
	\$	<u>9,469</u>

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

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

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

## 9. Discontinued Operations

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

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

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

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

2011	\$ 1,043
2012	300
Thereafter	831
	<u>\$ 2,174</u>

###### 10. Cash Overdrafts and Cash Equivalents

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

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

###### 11. Other Income/ (Expense) —Net

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

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

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

###### 12. Income Taxes

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

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



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

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

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

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

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

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

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



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

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

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

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

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

### 13. Properties and Equipment

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

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

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

### 14. Lease Arrangements

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

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

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

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

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

# 15. Pension and Retirement Plans

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

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

# 16. Earnings Per Share

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

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

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

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

The following table provides examples of how changes in our stock price impact the number of shares that would be included in our diluted earnings per share calculation. It also shows the impact on the number of shares issuable upon conversion of the Notes and settlement of the purchased call options and sold warrants:

Share Price	Shares Underlying 1.875% Convertible Notes	Warrant Shares	Total Treasury Method Incremental Shares (a)	Shares Due to the Company under Notes Hedges	Incremental Shares Issued by the Company upon Conversion (b)
\$ 80.73	18,136	-	18,136	(19,401)	(1,265)
90.73	273,379	-	273,379	(292,452)	(19,073)
100.73	477,943	-	477,943	(511,289)	(33,346)
110.73	645,559	119,282	764,841	(690,600)	74,241
120.73	785,408	316,210	1,101,618	(840,206)	261,412
130.73	903,861	483,010	1,386,871	(966,924)	419,947

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

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

## 17. Financial Instruments

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

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of December 31, 2010 (in thousands):

	Carrying Value	Fair Value Measure		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual fund investments of deferred compensation plans held in trust	\$ 28,304	\$ 28,304	\$ -	\$ -
Long-term debt	159,208	189,065	-	-

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

## 18. Loans Receivable from Independent Contractors

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

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

## 19. Legal and Regulatory Matters

### *Litigation*

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

VITAS is party to a class action lawsuit filed in the Superior Court of California, Los Angeles County, in September 2006 by Bernadette Santos, Keith Knoche and Joyce White. This case alleges failure to pay overtime and failure to provide meal and rest periods to a purported class of California admissions nurses, chaplains and sales representatives. The case seeks payment of penalties, interest and Plaintiffs' attorney fees. VITAS contests these allegations. In December 2009, the trial court denied Plaintiffs' motion for class certification. We are unable to estimate our potential liability, if any, with respect to this case.

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

### *Regulatory Matters*

In May 2009, VITAS received an administrative subpoena from the U.S. Department of Justice requesting VITAS deliver to the OIG documents, patient records, and policy and procedure manuals for headquarters and its Texas programs concerning hospice services provided for the period January 1, 2003 to the date of the letter. In August 2009, the OIG selected medical records for 59 past and current patients from a Texas program for review. In February 2010, VITAS received a companion civil investigative demand ("CID") from the state of Texas Attorney General's Office, seeking related documents. In September 2010, it received a second CID and a second administrative subpoena seeking related documents. We can neither predict the outcome of this investigation nor estimate our potential liability, if any. We believe that we are in compliance with Medicare and Medicaid rules and regulations applicable to hospice providers.

In April 2005, the Office of Inspector General ("OIG") for the Department of Health and Human Services served VITAS with civil subpoenas relating to VITAS' alleged failure to appropriately bill Medicare and Medicaid for hospice services. As part of this investigation, the OIG selected medical records for 320 past and current patients from VITAS' three largest programs for review. It also sought policies and procedures dating back to 1998 covering admissions, certifications, recertifications and discharges. During the third quarter of 2005 and again in May 2006, the OIG requested additional information from us. The Court dismissed a related qui tam complaint filed in U.S. District Court for the Southern District of Florida with prejudice in July 2007. The plaintiffs appealed this dismissal, which the Court of Appeals affirmed. The government continues to investigate the complaint's allegations. In March 2009, we received a letter from the government reiterating the basis of their investigation. We are unable to estimate our potential liability, if any, with respect to this matter.

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

## 20. Related Party Transactions

VITAS has two pharmacy services agreements ("Agreements") with Omnicare, Inc. and its subsidiaries ("OCR") whereby OCR provides specified pharmacy services for VITAS and its hospice patients in geographical areas served by both VITAS and OCR. The Agreements renew automatically for one-year terms. Either party may cancel the Agreements at the end of any term by giving 90 days prior written notice. VITAS made purchases from OCR of \$36.1 million, \$33.1 million and \$32.9 million for the years ended December 31, 2010, 2009 and 2008, respectively. VITAS' accounts payable to OCR and its subsidiaries are not material at December 31, 2010 and 2009.

Mr. Joel F. Gemunder retired as President and Chief Executive Officer of OCR during the third quarter of 2010 and is a director of the Company. Ms. Andrea Lindell is a director of both OCR and the Company. Mr. Kevin J. McNamara, President, Chief Executive Officer and a director of the Company, is a director emeritus of OCR. We believe that the terms of these agreements are no less favorable to VITAS than we could negotiate with an unrelated party.

## 21. Capital Stock Transactions

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

## 22. Subsequent Events

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

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

<b>Stock Price Hurdle</b>	<b>Shares to be Issued</b>
\$ 79.00	25,000
\$ 85.00	25,000
\$ 90.00	25,000
Total	<u>75,000</u>

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

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

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

### 23. Guarantor Subsidiaries

Our 1 875% Senior Convertible Notes issued on May 14, 2007, are fully and unconditionally guaranteed on an unsecured, joint and severally liable basis by our 100% owned subsidiaries. The equity method has been used with respect to the parent company's (Chemed) investment in subsidiaries. No consolidating adjustment column is presented for the condensed consolidating statement of cash flow since there were no significant consolidating entries for the periods presented. The following condensed, consolidating financial data present the composition of the parent company, the guarantor subsidiaries and the non-guarantor subsidiaries as of December 31, 2010 and 2009, and for the years ended December 31, 2010, 2009 and 2008 (in thousands):

#### December 31, 2010

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

#### December 31, 2009

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS</b>					
Cash and cash equivalents	\$ 109,331	\$ (1,221)	\$ 4,306	\$ -	\$ 112,416
Accounts receivable, less allowances	618	52,303	540	-	53,461
Intercompany receivables	-	149,888	-	(149,888)	-
Inventories	-	7,009	534	-	7,543
Current deferred income taxes	(378)	14,048	31	-	13,701
Prepaid income taxes	(3,227)	4,161	(185)	-	749
Prepaid expenses	770	9,545	73	-	10,388
Total current assets	107,114	235,733	5,299	(149,888)	198,258
Investments of deferred compensation plans held in trust	-	-	24,158	-	24,158
Properties and equipment, at cost, less accumulated depreciation	10,309	62,912	2,137	-	75,358
Identifiable intangible assets less accumulated amortization	-	57,920	-	-	57,920
Goodwill	-	445,662	4,380	-	450,042
Other assets	11,190	2,232	312	-	13,734
Investments in subsidiaries	643,572	15,523	-	(659,095)	-
Total assets	\$ 772,185	\$ 819,982	\$ 36,286	\$ (808,983)	\$ 819,470
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Accounts payable	\$ (2,411)	\$ 54,084	\$ 398	\$ -	\$ 52,071
Intercompany payables	147,744	-	2,144	(149,888)	-
Income taxes	(2,145)	2,159	49	-	63
Accrued insurance	1,231	33,930	-	-	35,161
Accrued compensation	4,235	30,020	407	-	34,662
Other current liabilities	1,643	11,367	1,117	-	14,127
Total current liabilities	150,297	131,560	4,115	(149,888)	136,084
Deferred income taxes	(10,549)	43,183	(6,710)	-	25,924
Long-term debt	152,127	-	-	-	152,127
Deferred compensation liabilities	-	-	23,637	-	23,637
Other liabilities	3,148	1,388	-	-	4,536
Stockholders' equity	477,162	643,851	15,244	(659,095)	477,162
Total liabilities and stockholders' equity	\$ 772,185	\$ 819,982	\$ 36,286	\$ (808,983)	\$ 819,470



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

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

**For the year ended December 31, 2009**

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

**For the year ended December 31, 2008**

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



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

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

**For the year ended December 31, 2009**

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

**For the year ended December 31, 2008**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Consolidated</b>
<b><u>Cash Flow from Operating Activities:</u></b>				
Net cash provided/(used) by operating activities	\$ (8,912)	\$ 118,904	\$ 2,091	\$ 112,083
<b><u>Cash Flow from Investing Activities:</u></b>				
Capital expenditures	(9,492)	(15,576)	(1,026)	(26,094)
Business combinations, net of cash acquired	-	(11,200)	-	(11,200)
Net proceeds from sale of discontinued operations	8,824	-	-	8,824
Proceeds from sale of property and equipment	10	342	35	387
Other sources/(uses) - net	(660)	123	(7)	(544)
Net cash used by investing activities	(1,318)	(26,311)	(998)	(28,627)
<b><u>Cash Flow from Financing Activities:</u></b>				
Change in cash overdrafts payable	(1,106)	250	-	(856)
Change in intercompany accounts	90,906	(91,249)	343	-
Dividends paid to shareholders	(5,543)	-	-	(5,543)
Purchases of treasury stock	(69,788)	-	-	(69,788)
Proceeds from exercise of stock options	291	-	-	291
Realized excess tax benefit on share based compensation	2,422	-	-	2,422
Net increase in revolving line of credit	8,200	-	-	8,200
Repayment of long-term debt	(18,551)	(162)	-	(18,713)
Other sources/(uses) - net	(413)	354	(770)	(829)
Net cash provided/ (used) by financing activities	6,418	(90,807)	(427)	(84,816)
Net increase/(decrease) in cash and cash equivalents	(3,812)	1,786	666	(1,360)
Cash and cash equivalents at beginning of year	3,877	(1,584)	2,695	4,988
Cash and cash equivalents at end of period	\$ 65	\$ 202	\$ 3,361	\$ 3,628

# UNAUDITED SUMMARY OF QUARTERLY RESULTS

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

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

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

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

# UNAUDITED SUMMARY OF QUARTERLY RESULTS

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

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

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

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

## SELECTED FINANCIAL DATA

Chemed Corporation and Subsidiary Companies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## EXECUTIVE SUMMARY

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

The following is a summary of the key operating results for the years ended December 31, 2010, 2009 and 2008 (in thousands except percentages and per share amounts):

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

\*See page 50 for reconciliation to GAAP measures

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

## 2010 versus 2009

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

## 2009 versus 2008

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

## Impact of Current Market Conditions

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

We expect VITAS to achieve full-year 2011 revenue growth, prior to Medicare cap, of 7% to 9%. Admissions are estimated to increase 5% to 7%. This revenue estimate includes the October 1, 2010, 2.1% increase in average hospice



reimbursement rates. We also expect VITAS to have estimated Medicare contractual billing limitations of \$5.0 million. Adjusted EBITDA margin for 2011 is estimated to be in the range of 15.3% to 16.3%.

#### LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

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

**CASH FLOW**

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

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

**COMMITMENTS AND CONTINGENCIES**

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

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

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

VITAS is party to a class action lawsuit filed in the Superior Court of California, Los Angeles County, in September 2006 by Bernadette Santos, Keith Knoche and Joyce White. This case alleges failure to pay overtime and failure to provide meal and rest periods to a purported class of California admissions nurses, chaplains and sales representatives. The case seeks payment of penalties, interest and Plaintiffs' attorney fees. VITAS contests these allegations. In December 2009, the trial court denied Plaintiffs' motion for class certification. We are unable to estimate our potential liability, if any, with respect to this case.

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

In May 2009, VITAS received an administrative subpoena from the U.S. Department of Justice requesting VITAS deliver to the OIG documents, patient records, and policy and procedure manuals for headquarters and its Texas programs concerning hospice services provided for the period January 1, 2003 to the date of the letter. In August 2009, the OIG selected medical records for 59 past and current patients from a Texas program for review. In February 2010, VITAS received a companion civil investigative demand ("CID") from the state of Texas Attorney General's Office, seeking related documents. In September 2010, it received a second CID and a second administrative subpoena seeking related documents. We can neither predict the outcome of this investigation nor estimate our potential liability, if any. We believe that we are in compliance with Medicare and Medicaid rules and regulations applicable to hospice providers.

In April 2005, the Office of Inspector General ("OIG") for the Department of Health and Human Services served VITAS with civil subpoenas relating to VITAS' alleged failure to appropriately bill Medicare and Medicaid for hospice services. As part of this investigation, the OIG selected medical records for 320 past and current patients from VITAS' three largest programs for review. It also sought policies and procedures dating back to 1998 covering admissions, certifications, recertifications and discharges. During the third quarter of 2005 and again in May 2006, the OIG requested additional information from us. The Court dismissed a related qui tam complaint filed in U.S. District Court for the Southern District of Florida with prejudice in July 2007. The plaintiffs appealed this dismissal, which the Court of Appeals affirmed. The government continues to investigate the complaint's allegations. In March 2009, we received a letter from the government reiterating the basis of their investigation. We are unable to estimate our potential liability, if any, with respect to this matter.

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

# CONTRACTUAL OBLIGATIONS

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

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

(a) Represents the face value of the obligation.

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

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

**RESULTS OF OPERATIONS****2010 Versus 2009 – Consolidated Results**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### 2010 Versus 2009 – Segment Results

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

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

### 2009 Versus 2008 – Consolidated Results

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

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

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

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

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

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

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

	<u>Amount</u>	<u>Percent</u>
Plumbing	\$ 5,241	4
Sewer and drain cleaning	(9,647)	(7)
Other	(197)	-
Total revenues	<u>\$ (4,603)</u>	(1)

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

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

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

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



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

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

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

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

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

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

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

## 2009 Versus 2008 – Segment Results

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

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

**CRITICAL ACCOUNTING POLICIES**

**Revenue Recognition**

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

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

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

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

We actively monitor each of our hospice programs, by provider number, as to their specific admissions, discharge rate and median length of stay data in an attempt to determine whether they are likely to exceed the Medicare cap. Should we determine that a provider number is likely to exceed the Medicare cap based on projected trends, we attempt to institute corrective action to influence the patient mix or to increase patient admissions. However, should we project our corrective action will not prevent that program from exceeding its Medicare cap, we estimate the amount of revenue recognized during the period that will require repayment to the Federal government under the Medicare cap and record that amount as a reduction in service revenue.

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

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

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

The U.S. government revises hospice reimbursement rates on an annual basis using the Hospice Wage Index (HWI) and Consumer Price Index (CPI) plus a phase out of the Budget Neutrality Adjustment Factor (BNAF). The HWI is geographically adjusted to reflect local differences in wages. The BNAF is a portion of inflation calculated in prior years that is being eliminated or phased out over a seven year period. In August 2008, the U.S. government announced a 25% reduction in the BNAF for its fiscal 2009 (October 2008 through September 2009) pursuant to a three year phase-out of the BNAF. The February 2009 American Recovery and Reinvestment Act mandated a one year delay in the BNAF phase-out. As a result, included in the twelve months ended December 31, 2009 results, is \$1.95 million of revenue for the retroactive price increase related to services provided by VITAS in the fourth quarter of 2008.

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

### Insurance Accruals

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

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

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

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

### Income Taxes

Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amount of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in our opinion, it is more likely than not that

some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in laws and rates on the date of enactment.

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

### **Goodwill and Intangible Assets**

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

### **Stock-based Compensation Plans**

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

### **Contingencies**

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

## Consolidating Summary of Adjusted EBITDA

### Chemed Corporation and Subsidiary Companies

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

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

2008		VITAS	Roto-Rooter	Corporate	Chemed Consolidated
<b>Net income/(loss)</b> .....	\$	64,304	\$ 33,427	\$ (30,450)	\$ 67,281
Add/(deduct):					
Discontinued operations.....		-	-	1,088	1,088
Interest expense.....		155	246	11,722	12,123
Income taxes.....		38,458	20,644	(12,067)	47,035
Depreciation.....		13,000	8,294	287	21,581
Amortization.....		4,651	313	960	5,924
<b>EBITDA</b> .....		120,568	62,924	(28,460)	155,032
Add/(deduct):					
Unreserved insurance claim.....		-	597	-	597
Impairment loss on transportation equipment.....		-	-	2,699	2,699
Legal expenses of OIG investigation.....		46	-	-	46
Stock option expense.....		-	-	7,303	7,303
Gain on extinguishment of debt.....		-	-	(3,406)	(3,406)
Advertising cost adjustment.....		-	225	-	225
Interest income.....		(137)	(116)	(489)	(742)
Intercompany interest/(expense).....		(5,199)	(3,708)	8,907	-
<b>Adjusted EBITDA</b> .....	\$	115,278	\$ 59,922	\$ (13,446)	\$ 161,754

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

OPERATING STATISTICS	Three Months Ended December 31,		Year Ended December 31,	
	2010	2009	2010	2009
Net revenue (\$000)				
Homecare	\$ 176,517	\$ 159,248	\$ 666,562	\$ 615,408
Inpatient	27,344	24,550	105,588	97,356
Continuous care	39,463	35,593	153,050	141,272
Total before Medicare cap allowance and 2008 BNAF	\$ 243,324	\$ 219,391	\$ 925,200	\$ 854,036
Estimated BNAF	-	-	-	1,950
Medicare cap allowance	(1,056)	(1,835)	610	(1,643)
Total	\$ 242,268	\$ 217,556	\$ 925,810	\$ 854,343
Net revenue as a percent of total before Medicare cap allowance				
Homecare	72.6 %	72.6 %	72.0 %	72.1 %
Inpatient	11.2	11.2	11.4	11.4
Continuous care	16.2	16.2	16.6	16.5
Total before Medicare cap allowance and 2008 BNAF	100.0	100.0	100.0	100.0
Estimated BNAF	-	-	-	0.2
Medicare cap allowance	(0.4)	(0.8)	0.1	(0.2)
Total	99.6 %	99.2 %	100.1 %	100.0 %
Average daily census (days)				
Homecare	8,851	7,933	8,476	7,730
Nursing home	3,193	3,253	3,207	3,281
Routine homecare	12,044	11,186	11,683	11,011
Inpatient	436	407	434	406
Continuous care	600	556	596	563
Total	13,080	12,149	12,713	11,980
Total Admissions	14,776	13,677	58,526	55,420
Total Discharges	15,038	13,667	57,817	54,814
Average length of stay (days)	80.8	76.4	78.1	76.0
Median length of stay (days)	15.0	14.0	14.0	14.0
ADC by major diagnosis				
Neurological	33.9 %	33.0 %	33.6 %	33.0 %
Cancer	18.3	18.8	18.4	19.1
Cardio	11.7	11.9	11.9	12.1
Respiratory	6.6	6.3	6.6	6.4
Other	29.5	30.0	29.5	29.4
Total	100.0 %	100.0 %	100.0 %	100.0 %
Admissions by major diagnosis				
Neurological	19.5 %	18.8 %	18.8 %	18.1 %
Cancer	34.4	35.8	34.5	35.7
Cardio	11.0	10.4	11.3	11.5
Respiratory	7.4	7.5	8.0	7.5
Other	27.7	27.5	27.4	27.2
Total	100.0 %	100.0 %	100.0 %	100.0 %
Direct patient care margins				
Routine homecare	54.4 %	52.5 %	52.8 %	52.0 %
Inpatient	14.4	11.6	13.6	14.6
Continuous care	22.6	20.1	21.4	20.2
Homecare margin drivers (dollars per patient day)				
Labor costs	\$ 51.97	\$ 51.89	\$ 52.57	\$ 52.27
Drug costs	7.89	7.58	7.81	7.63
Home medical equipment	5.84	6.91	6.48	6.86
Medical supplies	2.67	2.55	2.56	2.42
Inpatient margin drivers (dollars per patient day)				
Labor costs	\$ 305.19	\$ 300.26	\$ 299.54	\$ 287.16
Continuous care margin drivers (dollars per patient day)				
Labor costs	\$ 533.32	\$ 534.60	\$ 531.69	\$ 527.27
Bad debt expense as a percent of revenues	0.7 %	1.1 %	0.9 %	1.1 %
Accounts receivable --				
Days of revenue outstanding- excluding unapplied Medicare payments	38.2	48.3	N.A.	N.A.
Days of revenue outstanding- including unapplied Medicare payments	36.5	18.0	N.A.	N.A.

*SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 REGARDING FORWARD-LOOKING INFORMATION*

In addition to historical information, this report contains forward-looking statements and performance trends that are based upon assumptions subject to certain known and unknown risks, uncertainties, contingencies and other factors. Such forward-looking statements and trends include, but are not limited to, the impact of laws and regulations on our operations, our estimate of future effective income tax rates and the recoverability of deferred tax assets. Variances in any or all of the risks, uncertainties, contingencies, and other factors from our assumptions could cause actual results to differ materially from these forward-looking statements and trends. Our ability to deal with the unknown outcomes of these events, many of which are beyond our control, may affect the reliability of our projections and other financial matters.

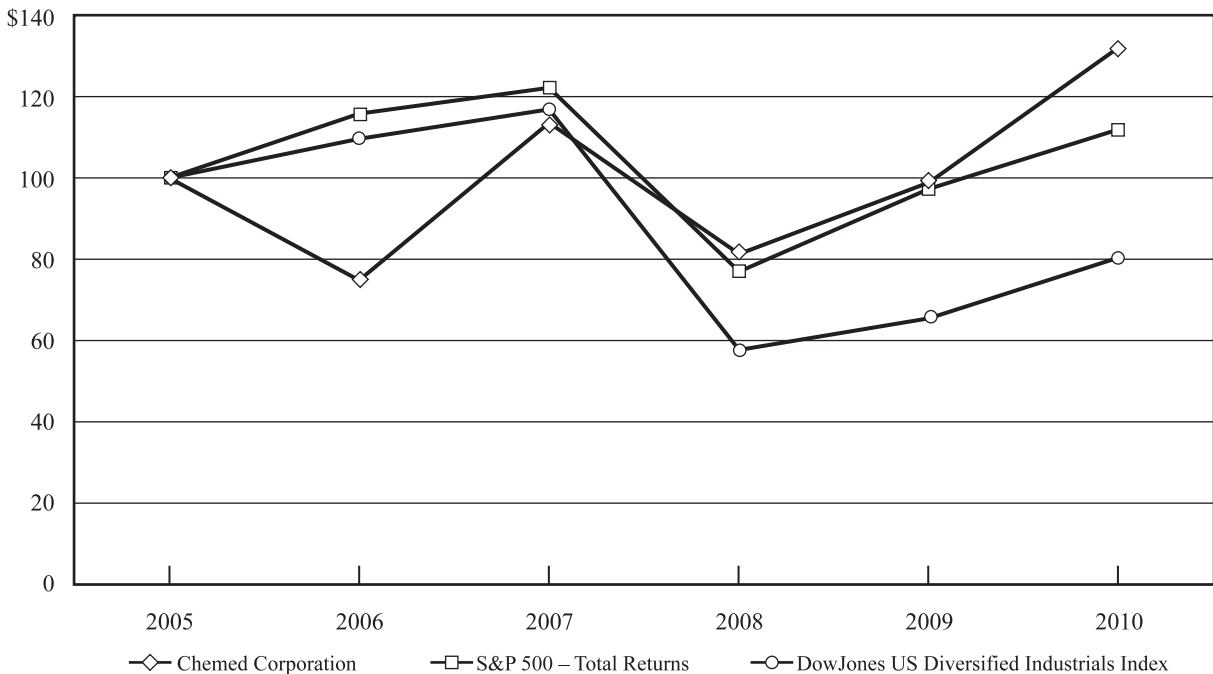


## Comparative Stock Performance Graph

This graph depicts the Company's cumulative total shareholder returns relative to the performance of the Standard & Poor's 500 Composite Stock Index and the Dow Jones Industrial Diversified Index for the five-year period commencing January 3, 2005, the first trading day of fiscal 2005, and ending December 31, 2010, the last trading day of fiscal 2010. The graph assumes \$100 invested at the closing price of the Company's common stock on the New York Stock Exchange and each index on January 3, 2005, and assumes that all dividends were reinvested on the date paid. The points on the graph represent fiscal year-end amounts based on the last trading day in each fiscal year.

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

Dollars



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

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# Corporate Officers and Directors

## Corporate Officers

**Kevin J. McNamara**

President and Chief Executive Officer

**David P. Williams**

Executive Vice President and Chief Financial Officer

**Timothy S. O'Toole**

Executive Vice President

**Spencer S. Lee**

Executive Vice President

**Arthur V. Tucker, Jr.**

Vice President and Controller

**Naomi C. Dallob**

Vice President and Chief Legal Officer

**Thomas C. Hutton**

Vice President

**Thomas J. Reilly**

Vice President

**Lisa A. Reinhard**

Chief Administrative Officer

## Directors

**Kevin J. McNamara**

President and Chief Executive Officer,  
Chemed Corporation

**Joel F. Gemunder** <sup>(3)</sup>

Former President and Chief Executive Officer,  
Omnicare, Inc. (retired)

**Patrick P. Grace** <sup>(1, 3\*)</sup>

Managing Principal,  
Apollo Philanthropy Partners, LLC  
(philanthropic advisory services)

**Thomas C. Hutton**

Vice President, Chemed Corporation

**Walter L. Krebs** <sup>(2)</sup>

Former Senior Vice President – Finance,  
Chief Financial Officer and Treasurer,  
Service America Systems, Inc. (retired)

**Andrea R. Lindell** <sup>(2)</sup>

Professor Emeritus,  
College of Nursing,  
University of Cincinnati

**Thomas P. Rice** <sup>(1)</sup>

General Manager and Partner,  
Columbia Investments LLC  
(investment company)

**Donald E. Saunders** <sup>(1\*)</sup>

Clinical Faculty Member,  
Farmer School of Business,  
Miami University (Ohio)

**George J. Walsh III** <sup>(2\*, 3)</sup>

Partner, Thompson Hine LLP  
(law firm, New York, New York);  
Chairman of the Board of Directors,  
Chemed Corporation

**Frank E. Wood** <sup>(2)</sup>

President and Chief Executive Officer,  
Secret Communications LLC (radio stations);  
Principal, The Darwin Group (venture capital);  
and Chairman, 8e6 Technologies Corporation  
(software development)

<sup>1)</sup> Audit Committee

<sup>2)</sup> Compensation/Incentive Committee

<sup>3)</sup> Nominating Committee

\* Committee Chairman

# Corporate Information

## Corporate Headquarters

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

## Transfer Agent & Registrar

Individuals of record needing address changes, account balances, account consolidations, replacement of lost certificates or lost checks, dividend reinvestment plan statements or cost-basis data, 1099s, or assistance with other administrative matters relating to their Chemed Capital Stock should direct their inquiries to:

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

*All questions relating to the administration of Chemed stock must be handled by Wells Fargo.*

## Dividend Reinvestment Plan for Holders of 25 or More Shares

The Chemed Automatic Dividend Reinvestment Plan is available to 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, N.A., at the address listed above.

## Corporate Inquiries

Annual reports, press releases, corporate governance guidelines, Board committee charters, Policies on Business Ethics, the Annual Report on Form 10-K, and other printed materials may be obtained from Chemed Investor Relations without charge by writing or by calling 800-2CHEMED or 800-224-3633. Printed materials may also be viewed and downloaded from Chemed's Web site at [www.chemed.com](http://www.chemed.com).

## Independent Accountants

PricewaterhouseCoopers LLP  
Cincinnati, Ohio 45202

## Annual Meeting

The Annual Meeting of Shareholders of Chemed Corporation, will be held on Monday, May 16, 2011, at 11 a.m. in the Lower Level Conference Center of The Queen City Club, 331 East Fourth Street, Cincinnati, Ohio.

## Number of Shareholders

The approximate number of shareholders of record of Chemed Capital Stock was 2,432 on December 31, 2010. (This number does not include shareholders with shares held under beneficial ownership or within clearinghouse positions of brokerage firms and banks.)

## Stock Exchange Listings

Chemed Capital Stock is listed on the New York Stock Exchange under the ticker symbol CHE.

## Capital Stock & Dividend Data

The high and low closing prices for Chemed Capital Stock and dividends per share paid by quarter follow:

	Closing		Dividends
	High	Low	Paid
2010			
First Quarter	\$57.18	\$46.41	\$ 0.12
Second Quarter	58.34	51.31	0.12
Third Quarter	57.30	49.52	0.14
Fourth Quarter	64.66	55.41	0.14
2009			
First Quarter	\$44.86	\$34.20	\$ 0.06
Second Quarter	43.01	37.18	0.06
Third Quarter	45.11	36.76	0.12
Fourth Quarter	48.79	43.50	0.12

**C H E M E D   C O R P O R A T I O N**

2600 Chemed Center

255 East Fifth Street

Cincinnati, Ohio 45202-4726

V I S I T   O U R   W E B S I T E S :



[www.chemed.com](http://www.chemed.com)



[www.rotorooter.com](http://www.rotorooter.com)



[www.vitas.com](http://www.vitas.com)