



CHEMED

CHEMED CORPORATION

2011 ANNUAL REPORT

Innovative
Hospice Care®
VITAS





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 2011, VITAS cared for approximately 75,000 patients totaling over 4.7 million days of care throughout 18 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, 2011, 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, 2011, 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, 2011, 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 sheets and the related consolidated statements of income, changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of Chemed Corporation and its subsidiaries at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, 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, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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



Cincinnati, OH
February 27, 2012

CONSOLIDATED STATEMENT OF INCOME

(in thousands, except per share data)

For the Years Ended December 31,

	2011	2010	2009
Continuing Operations			
Service revenues and sales.....	\$ 1,355,970	\$ 1,280,545	\$ 1,190,236
Cost of services provided and goods sold (excluding depreciation).....	970,484	906,016	834,574
Selling, general and administrative expenses.....	202,260	201,964	197,426
Depreciation.....	25,247	24,386	21,535
Amortization.....	4,252	4,657	6,367
Other operating expenses (Note 7).....	-	-	3,989
Total costs and expenses.....	1,202,243	1,137,023	1,063,891
Income from operations.....	153,727	143,522	126,345
Interest expense.....	(13,888)	(11,959)	(11,599)
Other income--net (Note 11).....	717	2,268	5,874
Income before income taxes.....	140,556	133,831	120,620
Income taxes (Note 12).....	(54,577)	(52,000)	(46,583)
Income from continuing operations.....	85,979	81,831	74,037
Discontinued Operations, Net of Income Taxes (Note 9).....	-	-	(253)
Net Income.....	\$ 85,979	\$ 81,831	\$ 73,784
Earnings Per Share (Note 16)			
Income from continuing operations.....	\$ 4.19	\$ 3.62	\$ 3.30
Net Income.....	\$ 4.19	\$ 3.62	\$ 3.29
Average number of shares outstanding.....	20,523	22,587	22,451
Diluted Earnings Per Share (Note 16)			
Income from continuing operations.....	\$ 4.10	\$ 3.55	\$ 3.26
Net Income.....	\$ 4.10	\$ 3.55	\$ 3.24
Average number of shares outstanding.....	20,945	23,031	22,742

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

CONSOLIDATED BALANCE SHEET

(in thousands, except shares and per share data)

December 31,	2011	2010
Assets		
Current assets		
Cash and cash equivalents (Note 10).....	\$ 38,081	\$ 49,917
Accounts receivable less allowances of \$11,524 (2010 - \$13,332).....	77,924	112,999
Inventories.....	8,668	7,728
Current deferred income taxes (Note 12).....	12,540	15,098
Prepaid income taxes.....	2,131	770
Prepaid expenses.....	11,409	10,285
Total current assets.....	150,753	196,797
Investments of deferred compensation plans held in trust (Notes 15 and 17).....	31,629	28,304
Properties and equipment, at cost, less accumulated depreciation (Note 13).....	82,951	79,292
Identifiable intangible assets less accumulated amortization of \$28,904 (2010 - \$27,438) (Note 6)...	58,262	57,858
Goodwill.....	460,633	458,343
Other assets.....	11,677	9,567
Total Assets.....	<u>\$795,905</u>	<u>\$830,161</u>
Liabilities		
Current liabilities		
Accounts payable.....	\$ 48,225	\$ 55,829
Income taxes (Note 12).....	90	1,161
Accrued insurance.....	37,147	36,492
Accrued compensation.....	41,087	39,719
Other current liabilities.....	18,851	16,141
Total current liabilities.....	145,400	149,342
Deferred income taxes (Note 12).....	29,463	25,085
Long-term debt (Note 3).....	166,784	159,208
Deferred compensation liabilities (Note 15).....	30,693	27,851
Other liabilities.....	9,881	6,626
Total Liabilities.....	<u>382,221</u>	<u>368,112</u>
Commitments and contingencies (Notes 14 and 19)		
Stockholders' Equity		
Capital stock - authorized 80,000,000 shares \$1 par; issued 30,936,925 shares (2010 - 30,381,863 shares).....	30,937	30,382
Paid-in capital.....	398,094	365,007
Retained earnings.....	546,757	473,316
Treasury stock - 11,880,051 shares (2010 - 9,103,185 shares), at cost.....	(564,091)	(408,615)
Deferred compensation payable in Company stock (Note 15).....	1,987	1,959
Total Stockholders' Equity.....	<u>413,684</u>	<u>462,049</u>
Total Liabilities and Stockholders' Equity.....	<u>\$795,905</u>	<u>\$830,161</u>

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

For the Years Ended December 31,

	2011	2010	2009
Cash Flows from Operating Activities			
Net income.....	\$ 85,979	\$ 81,831	\$ 73,784
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization.....	29,499	29,043	27,902
Provision for uncollectible accounts receivable.....	8,563	9,078	10,833
Stock option expense.....	8,376	7,762	8,639
Amortization of discount on convertible notes.....	7,576	7,081	6,617
Provision for deferred income taxes (Note 12).....	7,242	(2,409)	4,979
Noncash portion of long-term incentive compensation.....	2,595	4,161	4,385
Amortization of debt issuance costs.....	1,137	654	632
Discontinued operations (Note 9).....	-	-	253
Changes in operating assets and liabilities, excluding amounts acquired in business combinations:			
Decrease/(increase) in accounts receivable.....	26,896	(68,656)	33,754
Decrease/(increase) in inventories.....	(940)	(151)	29
Decrease/(increase) in prepaid expenses.....	(1,124)	332	(455)
Increase/(decrease) in accounts payable and other current liabilities.....	(1,397)	13,810	(8,109)
Increase in income taxes.....	2,708	4,825	623
Increase in other assets.....	(4,009)	(4,398)	(1,678)
Increase in other liabilities.....	4,548	5,999	272
Excess tax benefit on share-based compensation.....	(3,854)	(3,357)	(1,955)
Other sources.....	548	407	327
Net cash provided by operating activities.....	<u>174,343</u>	<u>86,012</u>	<u>160,832</u>
Cash Flows from Investing Activities			
Capital expenditures.....	(29,592)	(25,639)	(21,496)
Business combinations, net of cash acquired (Note 8).....	(3,664)	(9,469)	(1,919)
Other uses.....	(858)	(592)	573
Net cash used by investing activities.....	<u>(34,114)</u>	<u>(35,700)</u>	<u>(22,842)</u>
Cash Flows from Financing Activities			
Purchases of treasury stock (Note 21).....	(147,886)	(109,330)	(4,225)
Dividends paid.....	(12,538)	(11,881)	(8,157)
Proceeds from exercise of stock options (Note 4).....	8,036	5,327	545
Excess tax benefit on share-based compensation.....	3,854	3,357	1,955
Debt issuance costs.....	(2,657)	-	-
Increase/(decrease) in cash overdraft payable.....	(826)	(581)	2,891
Repayment of long-term debt (Note 3).....	-	-	(14,669)
Net change in revolving line of credit.....	-	-	(8,200)
Other sources/(uses).....	(48)	297	658
Net cash used by financing activities.....	<u>(152,065)</u>	<u>(112,811)</u>	<u>(29,202)</u>
Increase/(decrease) in cash and cash equivalents.....	(11,836)	(62,499)	108,788
Cash and cash equivalents at beginning of year.....	<u>49,917</u>	<u>112,416</u>	<u>3,628</u>
Cash and cash equivalents at end of year.....	<u>\$ 38,081</u>	<u>\$ 49,917</u>	<u>\$112,416</u>

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

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except per share data)

	Capital Stock	Paid-in Capital	Retained Earnings	Treasury Stock- at Cost	Deferred Compensation Payable in Company Stock	Total
Balance at December 31, 2008.....	\$ 29,515	\$ 313,516	\$ 337,739	\$ (285,977)	\$ 2,038	\$ 396,831
Net income.....	-	-	73,784	-	-	73,784
Dividends paid (\$.36 per share).....	-	-	(8,157)	-	-	(8,157)
Stock awards and exercise of stock options (Note 4).....	376	21,741	-	(7,305)	-	14,812
Purchases of treasury stock (Note 21).....	-	-	-	(742)	-	(742)
Other.....	-	633	-	83	(82)	634
Balance at December 31, 2009.....	29,891	335,890	403,366	(293,941)	1,956	477,162
Net income.....	-	-	81,831	-	-	81,831
Dividends paid (\$.52 per share).....	-	-	(11,881)	-	-	(11,881)
Stock awards and exercise of stock options (Note 4).....	491	28,541	-	(10,615)	-	18,417
Purchases of treasury stock (Note 21).....	-	-	-	(104,139)	-	(104,139)
Other.....	-	576	-	80	3	659
Balance at December 31, 2010.....	30,382	365,007	473,316	(408,615)	1,959	462,049
Net income.....	-	-	85,979	-	-	85,979
Dividends paid (\$.60 per share).....	-	-	(12,538)	-	-	(12,538)
Stock awards and exercise of stock options (Note 4).....	555	33,218	-	(11,576)	-	22,197
Purchases of treasury stock (Note 21).....	-	-	-	(143,970)	-	(143,970)
Other.....	-	(131)	-	70	28	(33)
Balance at December 31, 2011.....	<u>\$ 30,937</u>	<u>\$ 398,094</u>	<u>\$ 546,757</u>	<u>\$ (564,091)</u>	<u>\$ 1,987</u>	<u>\$ 413,684</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

NATURE OF OPERATIONS

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

PRINCIPLES OF CONSOLIDATION

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

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

CASH EQUIVALENTS

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

ACCOUNTS AND LOANS RECEIVABLE

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

As of December 31, 2011, VITAS has approximately \$720,000 in unbilled revenue included in accounts receivable (December 31, 2010 - \$2.8 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.

CONCENTRATION OF RISK

As of December 31, 2011 and 2010, approximately 51% and 72%, respectively, of VITAS’ total accounts receivable balance were due from Medicare and 34% and 20%, respectively, of VITAS’ total accounts receivable balance were due from various state Medicaid programs. Combined accounts receivable from Medicare and Medicaid represent 76% of the net accounts receivable in the accompanying consolidated balance sheet as of December 31, 2011.

As further described in Note 20, we have agreements with one vendor to provide specified pharmacy services for VITAS and its hospice patients. In 2011 and 2010, respectively, purchases made from this vendor represent over 90% of all pharmacy services used by VITAS.

INVENTORIES

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

DEPRECIATION AND PROPERTIES AND EQUIPMENT

Depreciation of properties and equipment is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the remaining lease terms (excluding option terms) or their useful lives. Expenditures for maintenance, repairs, renewals and betterments that do not materially prolong the useful lives of the assets are expensed as incurred. The cost of property retired or sold and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is reflected currently in 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, 2011, were:

Buildings and building improvements	10.1 yrs.
Transportation equipment	14.4
Machinery and equipment	5.6
Computer software	5.0
Furniture and fixtures	4.7

GOODWILL AND INTANGIBLE ASSETS

Identifiable, definite-lived intangible assets arise from purchase business combinations and are amortized using either an accelerated method or the straight-line method over the estimated useful lives of the assets. The selection of an amortization method is based on which method best reflects the economic pattern of usage of the asset. The weighted average lives of our identifiable, definite-lived intangible assets at December 31, 2011, were:

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

The date of our annual goodwill and indefinite-lived intangible asset impairment analysis is October 1. The VITAS trade name is considered to have an indefinite life. We also capitalize the direct costs of obtaining licenses to operate either hospice programs or plumbing operations subject to a minimum capitalization threshold. These costs are amortized over the life of the license using the straight line method. Certificates of Need (CON), which are required in certain states for hospice operations, are generally granted without expiration and thus, we believe them to be indefinite-lived assets subject to impairment testing.

For valuing the VITAS tradename, we perform a discounted cash flow analysis on the expected theoretical royalty cash stream from the VITAS tradename. For valuing capitalized CON costs, we perform a discounted cash flow analysis on the expected income from the operating unit projecting income on a “with and without” basis. This method compares the expected income stream from the operating unit with a theoretical income stream assuming that the applicable state did not have a CON requirement. The difference in the discounted income streams is attributed as being the fair value of the CON. Based on these calculations, neither the VITAS tradename nor the capitalized CON costs are impaired.

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

In September 2011, the FASB issued Accounting Standards Update (“ASU”) No. 2011-08 – Goodwill Impairment Testing which provides additional guidance related to the impairment testing of goodwill. ASU No. 2011-08 allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity will no longer be required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The revised guidance is effective for fiscal years beginning after December 15, 2011, but early adoption is permitted. We adopted the new guidelines for our impairment test conducted as of October 1, 2011. Based on our review of qualitative factors, such as financial performance of the reporting units and the macro-economic environment, we determined it was more likely than not that the fair value of each of our reporting units exceeded their respective recorded values. Accordingly, we concluded that the two-step quantitative goodwill impairment test is not necessary.

LONG-LIVED ASSETS

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

OTHER ASSETS

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

REVENUE RECOGNITION

Both the VITAS segment and Roto-Rooter segment recognize service revenues and sales when the earnings process has been completed. Generally, this occurs when services are provided or products are delivered. Sales of Roto-Rooter products, including drain cleaning machines and drain cleaning solution, comprise less than 3% of our total service revenues and sales for each of the three years in the period ended December 31, 2011.

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, 2011, 2010 and 2009, was \$7.3 million, \$7.2 million and \$6.3 million, respectively. The cost of charity care is calculated by taking the ratio of charity care days to total days of care and multiplying by total cost of care.

SALES TAX

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

GUARANTEES

In the normal course of business, Roto-Rooter enters into various guarantees and indemnifications in our relationships with customers and others. These arrangements include guarantees of services for periods ranging from one day to one year and product satisfaction guarantees. 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, 2011 or 2010.

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, 2011, was \$27.2 million (2010 – \$27.7 million; 2009 - \$27.0 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.

CONTINGENCIES

We are subject to various lawsuits and claims in the normal course of our business. In addition, we periodically receive communications from governmental and regulatory agencies concerning compliance with Medicare and Medicaid billing requirements at our VITAS subsidiary. We establish reserves for specific, uninsured liabilities in connection with regulatory and legal action that we deem to be probable and estimable. We record legal fees associated with legal and regulatory actions as the costs are incurred. We disclose material loss contingencies that are probable but not reasonably estimable and those that are at least reasonably possible.

ESTIMATES

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

RECLASSIFICATIONS

Certain reclassifications have been made to prior-year amounts to conform to current year classifications. In 2011 we reclassified capitalized direct costs of obtaining licenses to operate plumbing locations and hospice programs from other long-term assets to intangible assets.

2. Hospice Revenue Recognition

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

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

	Medicare	Medicaid	Commercial	Other	Total
Beginning Balance January 1, 2010	\$ 6,268	\$ 2,535	\$ 1,630	\$ 505	\$ 10,938
Bad debt provision	2,918	2,922	1,745	314	7,899
Write-offs	(2,218)	(2,653)	(2,152)	(436)	(7,459)
Other/Contractual adjustments	-	-	-	423	423
Ending Balance December 31, 2010	6,968	2,804	1,223	806	11,801
Bad debt provision	315	4,323	2,245	172	7,055
Write-offs	(2,368)	(4,030)	(1,915)	(1,282)	(9,595)
Other/Contractual adjustments	2	-	16	724	742
Ending Balance December 31, 2011	\$ 4,917	\$ 3,097	\$ 1,569	\$ 420	\$ 10,003

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 2011, 2010 or 2009.

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.

During the year ended December 31, 2011, we reversed Medicare cap liability for amounts recorded in the fourth quarter of 2010 for two programs' projected 2011 measurement period liability. This reversal was partially offset by the Medicare cap liability for three programs' projected 2012 measurement period liability. For the year ended

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

	2011	2010
Beginning Balance January 1,	\$ 1,371	\$ 1,981
Expense - 2012 measurement period	2,578	-
Reversal - 2011 measurement period	(786)	-
Expense - 2011 measurement period	-	1,110
Reversal - 2010 measurement period	-	(1,720)
Other	(198)	-
Ending Balance December 31,	<u>\$ 2,965</u>	<u>\$ 1,371</u>

3. Long-Term Debt and Lines of Credit

As of December 31, 2011, we have long-term debt of \$166.8 million (December 31, 2010 - \$159.2 million). This long-term debt is related in its entirety to our Convertible Notes that are due in full in 2014.

2011 REFINANCING

On March 1, 2011, we replaced our existing credit agreement with our Revolving Credit Facility ("2011 Credit Agreement"). Terms of the 2011 Credit Agreement consist of a five-year, \$350 million revolving credit facility. This 2011 Credit Agreement has a floating interest rate that is currently LIBOR plus 175 basis points (2.11% at December 31, 2011). The 2011 Credit Agreement also includes a \$150 million expansion feature. Debt issuance costs written-off related to the previous existing credit agreement are not material.

CONVERTIBLE NOTES

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

The conversion rate on the Notes is adjusted upon certain corporate events including a quarterly dividend payment in excess of \$0.06 per share. We have increased the dividend per share periodically since issuing the Notes. This has the effect of changing the conversion rate to 12.5589 (\$79.62 per share) at December 31, 2011.

Pursuant to the FASB's guidance on accounting for derivative instruments indexed to, and potentially settled in a company's own stock as well as the guidance on the meaning of "indexed to a company's own stock," the Notes are accounted for as convertible debt in the accompanying consolidated balance sheet and the embedded options within the Notes have not been accounted for as separate derivatives. FASB's guidance requires all such convertible debentures to be separately accounted for as debt and equity pieces of the instrument. At inception of the convertible instrument, cash flows related to the convertible instrument are to be discounted using a market rate of interest.

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

	December 31,	
	2011	2010
Principal amount of convertible debentures	\$ 186,956	\$ 186,956
Unamortized debt discount	(20,172)	(27,748)
Carrying amount of convertible debentures	<u>\$ 166,784</u>	<u>\$ 159,208</u>
Additional paid in capital (net of tax)	<u>\$ 31,310</u>	<u>\$ 31,310</u>

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.

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

	December 31,		
	2011	2010	2009
Cash interest expense	\$ 5,175	\$ 4,224	\$ 4,350
Non-cash amortization of debt discount	7,576	7,081	6,617
Amortization of debt costs	1,137	654	632
Total interest expense	<u>\$ 13,888</u>	<u>\$ 11,959</u>	<u>\$ 11,599</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, 2011 and 2010.

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):

2011	\$ 4,754
2010	4,113
2009	4,667

DEBT COVENANTS

Collectively, the 2011 Credit Agreement and the Notes require us to meet certain restrictive non-financial and financial covenants. We are in compliance with all non-financial debt covenants as of December 31, 2011. The restrictive financial covenants are defined in the 2011 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, 2011, as follows:

Description	Requirement	Chemed
Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA)	< 3.50 to 1.00	1.09 to 1.00
Fixed Charge Coverage Ratio (Consolidated Free Cash Flow/Consolidated Fixed Charges)	> 1.50 to 1.00	2.47 to 1.00
Annual Operating Lease Commitment	< \$30.0 million	\$19.8 million

We have issued \$29.5 million in standby letters of credit as of December 31, 2011, mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of December 31, 2011, we have approximately \$320.5 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the expansion feature.

4. Stock-Based Compensation Plans

We have 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.

We grant stock options and restricted stock awards to our officers, other key employees and directors to better align their long-term interests with those of our shareholders. We grant stock options at an exercise price equal to the market price of our stock on the date of grant. Options generally vest evenly annually over a three-year period and have a contractual life of 10 years. Restricted stock awards generally cliff vest over a three-or four year period. Immediately vesting stock awards are generally granted to our non-employee directors annually at the time of our Annual Meeting.

In February 2011, the CIC granted 35,713 restricted stock awards to certain key employees. These shares cliff vest in February 2015. In May 2011, the CIC granted 6,928 unrestricted shares to stock to the Company's outside directors.

The following table summarizes total stock option and stock award activity during 2011:

	Stock Options			Stock Awards		
	Weighted Average		Aggregate	Weighted		
		Remaining	Intrinsic		Average	
	Number of	Exercise	Contractual	Value	Grant-Date	
	Options	Price	Life (Years)	(thousands)	Price	
Outstanding at January 1, 2011	2,586,646	\$47.19			151,620	\$48.00
Granted	513,100	65.17			125,741	64.74
Exercised/Vested	(433,321)	36.22			(58,238)	57.61
Canceled/ Forfeited	(27,902)	51.99			(4,000)	44.02
Outstanding at December 31, 2011	<u>2,638,523</u>	52.44	6.6	\$12,748	<u>215,123</u>	55.25
Vested and expected to vest						
at December 31, 2011	2,630,500	52.45	6.6	12,724	n.a.	n.a.
Exercisable at December 31, 2011	1,630,660	49.22	5.5	11,506	n.a.	n.a.

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. Prior to 2011, we separated the participants into two groups for purposes of calculating the fair value of options. Beginning in 2011, we valued all participants' options as a single group because segregation of data did not provide significantly different results for determining compensation expense for stock

options. Data for 2010 and 2009 have been combined to present the weighted average information of previously segregated data. The assumptions we used to value the 2011, 2010 and 2009 grants are as follows:

	2011	2010	2009
Stock price on date of issuance	\$65.17	\$52.76	\$44.02
Grant date fair value per share	\$19.08	\$15.21	\$14.04
Number of options granted	513,100	515,100	508,600
Expected term (years)	4.9	5.1	5.1
Risk free rate of return	2.35%	2.43%	1.74%
Volatility	32.8%	33.5%	35.0%
Dividend yield	1.0%	1.5%	0.6%
Forfeiture rate	-	1.6%	2.0%

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

	Years Ended December 31,		
	2011	2010	2009
Total compensation cost of stock-based compensation plans charged against income	\$14,237	\$14,961	\$15,726
Total income tax benefit recognized in income for stock based compensation plans	5,232	5,499	5,780
Total intrinsic value of stock options exercised	12,925	10,096	5,079
Total intrinsic value of stock awards vested during the period	3,757	8,437	5,604
Per-share weighted averaged grant-date fair value of stock awards granted	64.74	57.13	44.54

Other data for stock options and stock awards for 2011 include (dollar amounts in thousands):

	Stock Options	Stock Awards
Total unrecognized compensation related to nonvested options and awards at end of year	\$9,851	\$5,995
Weighted average period over which unrecognized compensation cost of nonvested options and awards to be recognized (years)	1.8	1.8
Actual income tax benefit realized from options exercised during the year	\$4,764	n.a.

EXECUTIVE LONG-TERM INCENTIVE PLAN ("LTIP")

Our shareholders approved in May 2002 the adoption of the LTIP covering our officers and certain key employees. The CIC periodically approves a pool of shares to be awarded based on stock price targets, EBITDA targets, time-based vesting and a discretionary component for the LTIP.

The CIC established price targets and pools of unrestricted shares to be granted if the closing stock price reaches the target price for 30 of 60 consecutive trading days during the specified three-year period:

	February 2011 Price Targets for the three years ending February 18, 2014			May 2009 Price Targets for the three years ending February 28, 2012		
Price target	\$79.00	\$85.00	\$90.00	\$54.00	\$58.00	\$62.00
Number of shares in the pool	25,000	25,000	25,000	22,500	33,750	33,750
Shares awarded:						
From the pool	-	-	-	22,500	33,750	33,750
Discretionary shares	-	-	-	5,400	7,350	7,350
Total shares	-	-	-	27,900	41,100	41,100
Pretax cost of award (in thousands)	n.a.	n.a.	n.a.	\$1,799	\$2,935	\$3,012
Date of award	n.a.	n.a.	n.a.	April 2010	December 2010	January 2011

The CIC also established cumulative adjusted EBITDA Earnings Targets for three-year and four year periods and pools of unrestricted shares to be granted upon the attainment of either target:

	Cumulative EBITDA Targets	
	November 2009	May 2007
Beginning measurement date	January 1, 2010	January 1, 2007
Three-year EBITDA Target (in thousands)	\$640,000	\$465,000
Four-year EBITDA target (in thousands)	825,000	604,000
Shares in EBITDA pool	80,000	80,000
Shares awarded:		
From the pool	-	80,000
Discretionary shares	-	16,200
Total shares	-	96,200
Pretax cost of award (in thousands)	-	\$5,007
Date of award	n.a.	November 2009

The above pretax costs of the LTIP awards include related payroll taxes and savings plan contributions and are included in the “Selling, general and administrative expenses” line of the consolidated income statement.

In February 2011, the CIC approved a time-based LTIP award of 42,000 shares of restricted stock to certain key employees. The restricted shares cliff vest four years from the date of issuance. The cumulative compensation expense related to the restricted award is \$2.7 million and will be recognized ratably over the 4 year vesting period. We assumed no forfeitures in determining the cumulative compensation expense of the grant. In November 2009, the CIC established a discretionary pool of 37,000 shares of capital stock.

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.

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 73% and 27%, respectively, in 2011 and 72% and 28%, respectively, in 2010. The vast majority of our service revenues and sales from continuing operations are generated from business within the United States.

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

- The VITAS segment provides hospice services for patients with terminal illnesses. This type of care is aimed at making the terminally ill patient’s end of life as comfortable and pain-free as possible. Hospice care is typically available to patients who have been initially certified or re-certified as terminally ill (i.e., a prognosis of six months or less) by their attending physician, if any, and the hospice physician. VITAS offers all levels of hospice care in a given market, including routine home care, inpatient care and continuous care. Over 90% of VITAS’ revenues are derived through the Medicare and Medicaid reimbursement programs.
- The Roto-Rooter segment provides repair and maintenance services to residential and commercial accounts using the Roto-Rooter registered service marks. Such services include plumbing and sewer, drain and pipe cleaning. They are delivered through company-owned and operated territories, independent contractor-operated territories and franchised locations. This segment also manufactures and sells products and equipment used to provide such services.
- We report corporate administrative expenses and unallocated investing and financing income and expense not directly related to either segment as “Corporate”. Corporate administrative expense includes the stewardship,

accounting and reporting, legal, tax and other costs of operating a publicly held corporation. Corporate investing and financing income and expenses include the costs and income associated with corporate debt and investment arrangements.

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

		For the Years Ended December 31,		
		2011	2010	2009
<u>Revenues by Type of Service</u>				
VITAS				
Routine homecare		\$ 718,658	\$ 666,562	\$ 615,408
Continuous care		158,466	153,050	141,272
General inpatient		110,742	105,588	97,356
Estimated BNAF		-	-	1,950
Medicare cap		(1,594)	610	(1,643)
Total segment		986,272	925,810	854,343
Roto-Rooter				
Sewer and drain cleaning		138,932	135,704	136,503
Plumbing repair and maintenance		177,363	168,625	151,072
Independent contractors		26,711	22,943	21,620
HVAC repair and maintenance		3,410	4,183	4,031
Other products and services		23,282	23,280	22,667
Total segment		369,698	354,735	335,893
Total service revenues and sales		\$ 1,355,970	\$ 1,280,545	\$ 1,190,236
<u>Aftertax Segment Earnings/(Loss)</u>				
VITAS				
		\$ 80,358	\$ 79,796	\$ 71,696
Roto-Rooter				
		34,879	31,678	33,040
Total		115,237	111,474	104,736
Corporate				
		(29,258)	(29,643)	(30,699)
Discontinued operations				
		-	-	(253)
Net income		\$ 85,979	\$ 81,831	\$ 73,784
<u>Interest Income</u>				
VITAS				
		\$ 4,293	\$ 4,852	\$ 4,581
Roto-Rooter				
		2,176	2,661	2,587
Total		6,469	7,513	7,168
Corporate				
		91	175	83
Intercompany eliminations				
		(6,134)	(7,244)	(6,828)
Total interest income		\$ 426	\$ 444	\$ 423
<u>Interest Expense</u>				
VITAS				
		\$ 229	\$ 131	\$ 374
Roto-Rooter				
		358	233	186
Total		587	364	560
Corporate				
		13,301	11,595	11,039
Total interest expense		\$ 13,888	\$ 11,959	\$ 11,599
<u>Income Tax Provision</u>				
VITAS				
		\$ 48,835	\$ 48,601	\$ 43,637
Roto-Rooter				
		21,353	19,547	20,372
Total		70,188	68,148	64,009
Corporate				
		(15,611)	(16,148)	(17,426)
Total income tax provision		\$ 54,577	\$ 52,000	\$ 46,583

		For the Years Ended December 31,		
		2011	2010	2009
<u>Identifiable Assets</u>				
VITAS		\$ 504,677	\$ 531,247	\$ 476,621
Roto-Rooter		212,234	205,601	191,254
Total		716,911	736,848	667,875
Corporate		78,994	93,313	151,595
Total identifiable assets		\$ 795,905	\$ 830,161	\$ 819,470
<u>Additions to Long-Lived Assets</u>				
VITAS		\$ 24,298	\$ 17,492	\$ 14,945
Roto-Rooter		9,426	18,035	8,067
Total		33,724	35,527	23,012
Corporate		72	18	448
Total additions to long-lived assets		\$ 33,796	\$ 35,545	\$ 23,460
<u>Depreciation and Amortization</u>				
VITAS		\$ 18,480	\$ 18,900	\$ 17,973
Roto-Rooter		8,729	8,289	8,509
Total		27,209	27,189	26,482
Corporate		2,290	1,854	1,420
Total depreciation and amortization		\$ 29,499	\$ 29,043	\$ 27,902

6. Intangible Assets

Amortization of definite-lived intangible assets from continuing operations for the years ended December 31, 2011, 2010, 2009 was \$1.5 million, \$2.1 million and \$4.0 million, respectively. The following is a schedule by year of projected amortization expense for definite-lived intangible assets (in thousands):

2012	\$ 1,487
2013	1,487
2014	508
2015	277
2016	242
Thereafter	307

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

	Gross Asset	Accumulated Amortization	Net Book Value
December 31, 2011			
Referral networks	\$ 21,729	\$ (18,647)	\$ 3,082
Covenants not to compete	9,286	(8,885)	401
Customer lists	1,222	(1,118)	104
Reacquired franchise rights	974	(254)	720
Subtotal - definite-lived intangibles	33,211	(28,904)	4,307
VITAS trade name	51,300	-	51,300
Operating licenses	2,655	-	2,655
Total	\$ 87,166	\$ (28,904)	\$ 58,262
December 31, 2010			
Referral networks	\$ 21,140	\$ (17,427)	\$ 3,713
Covenants not to compete	9,211	(8,814)	397
Customer lists	1,223	(1,089)	134
Reacquired franchise rights	974	(108)	866
Subtotal - definite-lived intangibles	32,548	(27,438)	5,110
VITAS trade name	51,300	-	51,300
Operating licenses	1,448	-	1,448
Total	\$ 85,296	\$ (27,438)	\$ 57,858

7. Other Operating Expenses

There were no other operating expenses from continuing operations for the periods ended December 31, 2011 and 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.

8. Business Combinations

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

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

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.

The unaudited pro forma results of operations, assuming purchase business combinations completed in 2011 and 2010 were completed on January 1, 2010, 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,		
	2011	2010	2009
Adjustment to accruals of operations discontinued in prior years:			
Casualty insurance costs	\$ -	\$ -	\$ (400)
Loss before income taxes	-	-	(400)
All other income taxes	-	-	147
Total adjustments	-	-	(253)
Total discontinued operations	\$ -	\$ -	\$ (253)
Earnings/(loss) per share	\$ -	\$ -	\$ (0.01)
Diluted earnings/(loss) per share	\$ -	\$ -	\$ (0.02)

In December 2009, we recorded a \$400,000 pretax charge for residual casualty insurance claims related to our discontinued operations.

At December 31, 2011 and 2010, 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 2011 balance, \$826,000 is included in other current liabilities and \$901,000 is included in other liabilities (long-term). The estimated timing of payments of these liabilities follows (in thousands):

2012	\$	826
2013		300
Thereafter		601
	\$	<u>1,727</u>

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.

10. Cash Overdrafts and Cash Equivalents

Included in accounts payable are cash overdrafts of \$10.3 million and \$11.1 million as of December 31, 2011 and 2010, 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 \$32.5 million in cash equivalents as of December 31, 2011. There was \$45.5 million in cash equivalents as of December 31, 2010. The weighted average rate of return for our cash equivalents was 0.1% in both 2011 and 2010.

11. Other Income—Net

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

	For the Years Ended December 31,		
	2011	2010	2009
Market value gains on assets held in deferred compensation trust	\$ 798	\$ 2,210	\$ 5,802
Loss on disposal of property and equipment	(441)	(425)	(369)
Interest income	426	444	423
Other - net	(66)	39	18
Total other income	<u>\$ 717</u>	<u>\$ 2,268</u>	<u>\$ 5,874</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,		
	2011	2010	2009
Continuing Operations:			
Current			
U.S. federal	\$ 40,762	\$ 46,789	\$ 36,182
U.S. state and local	5,961	6,981	4,960
Foreign	612	639	462
Deferred			
U.S. federal, state and local	7,227	(2,418)	4,980
Foreign	15	9	(1)
Total	<u>\$ 54,577</u>	<u>\$ 52,000</u>	<u>\$ 46,583</u>
Discontinued Operations:			
Current U.S. federal	\$ -	\$ -	\$ (65)
Current U.S. state and local	-	-	(5)
Deferred U.S. federal, state and local	-	-	(77)
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (147)</u>

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

	December 31,	
	2011	2010
Accrued liabilities	\$ 27,687	\$ 26,334
Stock compensation expense	12,200	10,257
Allowance for uncollectible accounts receivable	1,905	2,695
State net operating loss carryforwards	1,633	1,379
Other	2,845	2,763
Deferred income tax assets	<u>46,270</u>	<u>43,428</u>
Amortization of intangible assets	(42,192)	(40,135)
Accelerated tax depreciation	(16,322)	(10,499)
Revenue recognition	(1,684)	-
Currents assets	(1,315)	(1,148)
Other	(1,530)	(1,397)
Deferred income tax liabilities	<u>(63,043)</u>	<u>(53,179)</u>
Net deferred income tax liabilities	<u>\$ (16,773)</u>	<u>\$ (9,751)</u>

Included in other assets at December 31, 2011, are deferred income tax assets of \$150,000 (2010 - \$236,000). At December 31, 2011 and 2010, state net operating loss carryforwards were \$31.0 million and \$26.0 million, respectively. These net operating losses will expire, in varying amounts, between 2012 and 2031. 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, 2008 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, 2006. 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, 2011 and 2010, we have approximately \$252,000 and \$114,000, 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):

	2011	2010	2009
Balance at January 1,	\$ 704	\$ 1,010	\$ 1,202
Unrecognized tax benefits due to positions taken in current year	2,038	119	136
Decrease due to settlement with taxing authorities	-	-	(214)
Decrease due to expiration of statute of limitations	(130)	(425)	(93)
Other	-	-	(21)
Balance at December 31,	\$ 2,612	\$ 704	\$ 1,010

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,		
	2011	2010	2009
Income tax provision calculated using the statutory rate of 35%	\$ 49,195	\$ 46,841	\$ 42,217
State and local income taxes, less federal income tax effect	4,733	4,509	3,837
Nondeductible expenses	1,021	928	854
Impact of deferred compensation plans	(1)	(27)	(190)
Other --net	(371)	(251)	(135)
Income tax provision	\$ 54,577	\$ 52,000	\$ 46,583
Effective tax rate	38.8%	38.9%	38.6%

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

2011	\$ 44,343
2010	49,532
2009	40,872

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,	
	2011	2010
Land	\$ 1,360	\$ 1,360
Buildings	40,424	32,788
Transportation equipment	19,412	18,837
Machinery and equipment	62,467	58,706
Computer software	44,805	47,203
Furniture and fixtures	58,317	51,277
Projects under development	2,875	1,817
Total properties and equipment	229,660	211,988
Less accumulated depreciation	(146,709)	(132,696)
Net properties and equipment	\$ 82,951	\$ 79,292

The net book value of computer software at December 31, 2011 and 2010, was \$15.4 million and \$18.9 million, respectively. Depreciation expense for computer software was \$5.6 million, \$5.9 million and \$4.2 million for the years ended December 31, 2011, 2010 and 2009, 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 eight 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, 2011 or 2010.

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, 2011 (in thousands):

2012	\$ 19,797
2013	14,995
2014	12,030
2015	9,725
2016	5,155
Thereafter	2,146
Total minimum rental payments	63,848
Less: minimum sublease rentals	(69)
Net minimum rental payments	<u>\$ 63,779</u>

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

	For the Years Ended December 31,		
	2011	2010	2009
Total rental payments	\$ 22,199	\$ 21,777	\$ 21,219
Less sublease rentals	(170)	(237)	(270)
Net rental expense	<u>\$ 22,029</u>	<u>\$ 21,540</u>	<u>\$ 20,949</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 are as follows (in thousands):

For the Years Ended December 31,		
2011	2010	2009
\$ 9,408	\$ 11,444	\$ 15,143

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, 2011, these trusts held 97,428 shares or \$2.0 million of our stock (2010 – 99,494 shares or \$2.0 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
2011						
Earnings	\$ 85,979	20,523	\$ 4.19	\$ 85,979	20,523	\$ 4.19
Dilutive stock options	-	335		-	335	
Nonvested stock awards	-	87		-	87	
Diluted earnings	\$ 85,979	20,945	\$ 4.10	\$ 85,979	20,945	\$ 4.10
2010						
Earnings	\$ 81,831	22,587	\$ 3.62	\$ 81,831	22,587	\$ 3.62
Dilutive stock options	-	348		-	348	
Nonvested stock awards	-	96		-	96	
Diluted earnings	\$ 81,831	23,031	\$ 3.55	\$ 81,831	23,031	\$ 3.55
2009						
Earnings	\$ 74,037	22,451	\$ 3.30	\$ 73,784	22,451	\$ 3.29
Dilutive stock options	-	229		-	229	
Nonvested stock awards	-	62		-	62	
Diluted earnings	\$ 74,037	22,742	\$ 3.26	\$ 73,784	22,742	\$ 3.24

During 2011, 1.3 million 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 2010, 970,900 stock options were also excluded. During 2009, 819,917 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 at December 31, 2011. 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	32,140	-	32,140	(34,382)	(2,242)
\$ 90.73	287,382	-	287,382	(307,433)	(20,051)
\$ 100.73	491,947	-	491,947	(526,270)	(34,323)
\$ 110.73	659,562	119,997	779,559	(705,580)	73,979
\$ 120.73	799,411	318,107	1,117,518	(855,187)	262,331
\$ 130.73	917,865	485,908	1,403,773	(981,905)	421,868

a) Represents the number of incremental shares that must be included in the calculation of 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, 2011 (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	\$ 31,629	\$ 31,629	\$ -	\$ -
Long-term debt	166,784	175,755	-	-

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, 2011, we had contractual arrangements with 64 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, 2011 is approximately \$1.1 million (2010 - \$1.1 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, 2011. During the periods ended December 31, 2011, 2010 and 2009 we recorded the following from our independent contractors (in thousands):

	For the Years Ended December 31,		
	2011	2010	2009
Revenues	\$ 26,711	\$ 22,943	\$ 21,620
Pretax profits	13,320	10,695	9,466

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. 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. We contest these allegations. In December 2009, the trial court denied Plaintiffs' motion for class certification. In July 2011, the Court of Appeals affirmed denial of class certification on the travel time, meal and rest period claims, and reversed the trial court's denial on the off-the-clock and sales representation exemption claims. Plaintiffs have filed an appeal of this decision. We are unable to estimate our potential liability or potential range of loss, if any, with respect to this case.

On November 14, 2011, Luann and Michael Cosgrove and Dawn Mills filed a class action lawsuit against Roto-Rooter in Minnesota state district court for the 4th Judicial District alleging unnecessary excavation work in Minnesota. We removed the case to federal court. Plaintiffs seek damages, injunctive relief, attorney fees and interest. We contest these allegations. This lawsuit is in its early stage and we are unable to estimate our potential liability, if any, with respect to these allegations.

On January 12, 2012, the Greater Pennsylvania Carpenters Pension Fund filed a putative class action lawsuit in the United States District Court for the Southern District of Ohio against the Company, Kevin McNamara, David Williams, and Tim O'Toole. It alleges violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 against all defendants, and violation of Section 20(a) of the Securities Exchange Act of 1934 against the individual defendants. The suit, Greater Pennsylvania Carpenters Pension Fund v. Chemed Corp., et al., Civil Action No. 1:12-cv-28 (S.D. Ohio), concerns the VITAS hospice segment of the Company's business. Plaintiff seeks, on behalf of a putative class of purchasers of Chemed Capital Stock between February 15, 2010, and November 16, 2011, compensatory damages in an unspecified amount and attorneys' fees and expenses, arising from defendants' failure to disclose an alleged fraudulent scheme to enroll ineligible hospice patients and to fraudulently obtain payments from the federal government. Defendants believe the allegations are without merit, and intend to defend vigorously against them.

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. In April 2011, the U.S. Attorney provided the Company with a copy of qui tam complaint filed under seal in the U.S. District Court for the Northern District of Texas. The Court unsealed this complaint in November 2011. The U.S. Attorney and the Attorney General for the State of Texas filed a notice in November 2011 that they had decided not to intervene at that time in the case. They continue to investigate its allegations. It was brought by Michael Rehfelt, a former Vitas San Antonio program general manager, against Vitas, the program's former Regional Vice President Keith Becker, its former Medical Director Justos Cisneros, and their current employers: Wellmed Medical

Management, Care Level Management LLC, and Inspiris Inc. It alleges admission and recertification of inappropriate patients, backdating revocations, and conspiring with HMO defendants to admit inappropriate patients to hospice. In June 2011, the U.S. Attorney provided the Company with a partially unsealed second qui tam complaint filed under seal in the U.S. District court for the Western District of Texas. In June 2011, the U.S. Attorney also provided the Company with a partially unsealed third qui tam complaint filed under seal in the Northern District of Illinois, Eastern Division. We are conferring with the U.S. Attorney regarding the Company's defenses to each complaint's allegations. 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 \$39.4 million, \$36.1 million and \$33.1 million for the years ended December 31, 2011, 2010 and 2009, respectively. VITAS' accounts payable to OCR and its subsidiaries are not material at December 31, 2011 and 2010.

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. We believe that the terms of these agreements are no more or less favorable to VITAS than we could negotiate with an unrelated party.

21. Capital Stock Transactions

On November 7, 2011, our Board of Directors authorized an additional \$100 million of stock repurchases under the February 2011 repurchase program. On February 22, 2011, our Board of Directors authorized \$100 million of stock repurchases under the newly established February 2011 repurchase 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. We repurchased the following capital stock for the periods ended December 31, 2011, 2010 and 2009:

	For the Years Ended December 31,		
	2011	2010	2009
Shares repurchased	2,602,513	1,648,047	15,900
Weighted average price per share	\$ 55.28	\$ 63.14	\$ 46.65

22. Recent Accounting Statements

In May 2011, the FASB issued Accounting Standards Update (“ASU”) No. 2011-04 – Fair Value Measures. ASU No. 2011-04 provides amendments to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in U.S. GAAP and IFRS. The guidance is effective for fiscal years beginning after December 15, 2011. There was no material impact to the Company’s financial statements as a result of ASU No. 2011-04.

In July 2011, the FASB issued ASU No. 2011-07 – Health Care Entities which provides additional guidance to health care entities related to the recognition of patient service revenue and related disclosures. The additional guidance is effective for fiscal years beginning after December 15, 2011, but early adoption is permitted. There was no material impact on the Company upon adoption of ASU No. 2011-07.

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, 2011 and 2010, and for the years ended December 31, 2011, 2010 and 2009 (in thousands):

December 31, 2011

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Consolidating Adjustments</u>	<u>Consolidated</u>
ASSETS					
Cash and cash equivalents	\$ 32,470	\$ (1,422)	\$ 7,033	\$ -	\$ 38,081
Accounts receivable, less allowances	606	76,816	502	-	77,924
Intercompany receivables	-	273,413	-	(273,413)	-
Inventories	-	8,032	636	-	8,668
Current deferred income taxes	(650)	13,059	131	-	12,540
Prepaid income taxes	(114)	1,689	556	-	2,131
Prepaid expenses	503	10,757	149	-	11,409
Total current assets	32,815	382,344	9,007	(273,413)	150,753
Investments of deferred compensation plans	-	-	31,629	-	31,629
Properties and equipment, at cost, less accumulated depreciation	11,641	68,755	2,555	-	82,951
Identifiable intangible assets less accumulated amortization	-	58,262	-	-	58,262
Goodwill	-	456,183	4,450	-	460,633
Other assets	7,616	1,552	2,509	-	11,677
Investments in subsidiaries	793,277	21,148	-	(814,425)	-
Total assets	\$ 845,349	\$ 988,244	\$ 50,150	\$ (1,087,838)	\$ 795,905
LIABILITIES AND STOCKHOLDERS' EQUITY					
Accounts payable	\$ (683)	\$ 48,490	\$ 418	\$ -	\$ 48,225
Intercompany payables	269,042	-	4,371	(273,413)	-
Income taxes	-	-	90	-	90
Accrued insurance	489	36,658	-	-	37,147
Accrued compensation	3,828	36,655	604	-	41,087
Other current liabilities	1,719	15,728	1,404	-	18,851
Total current liabilities	274,395	137,531	6,887	(273,413)	145,400
Deferred income taxes	(12,330)	51,601	(9,808)	-	29,463
Long-term debt	166,784	-	-	-	166,784
Deferred compensation liabilities	-	-	30,693	-	30,693
Other liabilities	2,816	4,630	2,435	-	9,881
Stockholders' equity	413,684	794,482	19,943	(814,425)	413,684
Total liabilities and stockholders' equity	\$ 845,349	\$ 988,244	\$ 50,150	\$ (1,087,838)	\$ 795,905

December 31, 2010

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Consolidating Adjustments</u>	<u>Consolidated</u>
ASSETS					
Cash and cash equivalents	\$ 45,324	\$ (1,571)	\$ 6,164	\$ -	\$ 49,917
Accounts receivable, less allowances	802	111,716	481	-	112,999
Intercompany receivables	-	172,426	-	(172,426)	-
Inventories	-	7,191	537	-	7,728
Current deferred income taxes	(688)	15,666	120	-	15,098
Prepaid income taxes	2,787	(1,809)	(208)	-	770
Prepaid expenses	782	9,244	259	-	10,285
Total current assets	49,007	312,863	7,353	(172,426)	196,797
Investments of deferred compensation plans	-	-	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	-	57,858	-	-	57,858
Goodwill	-	453,864	4,479	-	458,343
Other assets	6,049	1,343	2,175	-	9,567
Investments in subsidiaries	716,815	18,696	-	(735,511)	-
Total assets	\$ 784,384	\$ 909,367	\$ 44,347	\$ (907,937)	\$ 830,161
LIABILITIES AND STOCKHOLDERS' EQUITY					
Accounts payable	\$ 4,924	\$ 50,457	\$ 448	\$ -	\$ 55,829
Intercompany payables	167,067	-	5,359	(172,426)	-
Income taxes	(7,190)	8,745	(394)	-	1,161
Accrued insurance	906	35,586	-	-	36,492
Accrued compensation	4,235	35,016	468	-	39,719
Other current liabilities	1,549	13,447	1,145	-	16,141
Total current liabilities	171,491	143,251	7,026	(172,426)	149,342
Deferred income taxes	(11,356)	45,168	(8,727)	-	25,085
Long-term debt	159,208	-	-	-	159,208
Deferred compensation liabilities	-	-	27,851	-	27,851
Other liabilities	2,992	3,123	511	-	6,626
Stockholders' equity	462,049	717,825	17,686	(735,511)	462,049
Total liabilities and stockholders' equity	\$ 784,384	\$ 909,367	\$ 44,347	\$ (907,937)	\$ 830,161

Chemed Corporation and Subsidiary Companies

For the year ended December 31, 2011

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

For the year ended December 31, 2010

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

For the year ended December 31, 2009

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

Chemed Corporation and Subsidiary Companies

For the year ended December 31, 2011

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Consolidated</u>
<u>Cash Flow from Operating Activities:</u>				
Net cash provided by operating activities	\$ 12,444	\$ 158,159	\$ 3,740	\$ 174,343
<u>Cash Flow from Investing Activities:</u>				
Capital expenditures	(73)	(28,145)	(1,374)	(29,592)
Business combinations, net of cash acquired	-	(3,664)	-	(3,664)
Other sources/(uses) - net	(191)	(730)	63	(858)
Net cash used by investing activities	(264)	(32,539)	(1,311)	(34,114)
<u>Cash Flow from Financing Activities:</u>				
Purchases of treasury stock	(147,791)	-	(95)	(147,886)
Dividends paid to shareholders	(12,538)	-	-	(12,538)
Proceeds from exercise of stock options	8,036	-	-	8,036
Realized excess tax benefit on share based compensation	3,854	-	-	3,854
Debt issuance costs	(2,657)	-	-	(2,657)
Change in cash overdrafts payable	9	(835)	-	(826)
Change in intercompany accounts	126,040	(124,636)	(1,404)	-
Other sources - net	13	-	(61)	(48)
Net cash provided/(used) by financing activities	(25,034)	(125,471)	(1,560)	(152,065)
Net increase/(decrease) in cash and cash equivalents	(12,854)	149	869	(11,836)
Cash and cash equivalents at beginning of year	45,324	(1,571)	6,164	49,917
Cash and cash equivalents at end of period	\$ 32,470	\$ (1,422)	\$ 7,033	\$ 38,081

For the year ended December 31, 2010

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Consolidated</u>
<u>Cash Flow from Operating Activities:</u>				
Net cash provided by operating activities	\$ 2,862	\$ 81,781	\$ 1,369	\$ 86,012
<u>Cash Flow from Investing Activities:</u>				
Capital expenditures	(18)	(24,677)	(944)	(25,639)
Business combinations, net of cash acquired	-	(9,469)	-	(9,469)
Other sources/(uses) - net	(157)	(688)	253	(592)
Net cash used by investing activities	(175)	(34,834)	(691)	(35,700)
<u>Cash Flow from Financing Activities:</u>				
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

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Consolidated</u>
<u>Cash Flow from Operating Activities:</u>				
Net cash provided by operating activities	\$ 950	\$ 153,387	\$ 6,495	\$ 160,832
<u>Cash Flow from Investing Activities:</u>				
Capital expenditures	(448)	(20,394)	(654)	(21,496)
Business combinations, net of cash acquired	-	(1,919)	-	(1,919)
Other sources/(uses) - net	702	(312)	183	573
Net cash provided/(used) by investing activities	254	(22,625)	(471)	(22,842)
<u>Cash Flow from Financing Activities:</u>				
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

UNAUDITED SUMMARY OF QUARTERLY RESULTS

(in thousands, except per share and footnote data)

For the Year Ended December 31, 2011	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Total service revenues and sales	\$330,918	\$333,360	\$341,439	\$350,253	\$ 1,355,970
Gross profit (excluding depreciation).....	\$ 93,460	\$ 93,763	\$ 96,376	\$101,887	\$ 385,486
Income from operations	\$ 30,548	\$ 35,842	\$ 41,311	\$ 46,026	\$ 153,727
Interest expense	(3,244)	(3,461)	(3,555)	(3,628)	(13,888)
Other income/(expense)—net.....	2,102	714	(1,935)	(164)	717
Income before income taxes	29,406	33,095	35,821	42,234	140,556
Income taxes.....	(11,305)	(12,809)	(13,934)	(16,529)	(54,577)
Net income (a).....	\$ 18,101	\$ 20,286	\$ 21,887	\$ 25,705	\$ 85,979
Earnings Per Share (a)					
Net income.....	\$ 0.86	\$ 0.96	\$ 1.06	\$ 1.34	\$ 4.19
Average number of shares outstanding.....	21,055	21,155	20,674	19,237	20,523
Diluted Earnings Per Share (a)					
Net income.....	\$ 0.84	\$ 0.94	\$ 1.04	\$ 1.31	\$ 4.10
Average number of shares outstanding.....	21,568	21,637	21,055	19,556	20,945

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Pretax (cost)/benefit:					
Stock option expense	\$ (1,933)	\$ (2,562)	\$ (2,408)	\$ (1,473)	\$ (8,376)
Noncash impact of change in accounting for convertible debt	(1,790)	(1,825)	(1,861)	(1,898)	(7,374)
Long-term incentive compensation	(3,012)	-	-	-	(3,012)
Acquisition expenses	(70)	(39)	(2)	(10)	(121)
Expenses of class action litigation	(495)	(186)	(770)	(848)	(2,299)
Expenses incurred in connection with the Office of Inspector General investigation	(511)	(486)	(212)	21	(1,188)
Total	\$ (7,811)	\$ (5,098)	\$ (5,253)	\$ (4,208)	\$ (22,370)
Aftertax (cost)/benefit:					
Stock option expense	\$ (1,223)	\$ (1,620)	\$ (1,523)	\$ (932)	\$ (5,298)
Noncash impact of change in accounting for convertible debt	(1,132)	(1,155)	(1,177)	(1,200)	(4,664)
Long-term incentive compensation	(1,880)	-	-	-	(1,880)
Acquisition expenses	(44)	(23)	(2)	(6)	(75)
Expenses of class action litigation	(301)	(113)	(467)	(516)	(1,397)
Expenses incurred in connection with the Office of Inspector General investigation	(317)	(301)	(131)	12	(737)
Total	\$ (4,897)	\$ (3,212)	\$ (3,300)	\$ (2,642)	\$ (14,051)

UNAUDITED SUMMARY OF QUARTERLY RESULTS

(in thousands, except per share and footnote data)

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

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

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

SELECTED FINANCIAL DATA

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

	2011	2010	2009	2008	2007
Summary of Operations					
Continuing operations (a)					
Service revenues and sales.....	\$ 1,355,970	\$ 1,280,545	\$ 1,190,236	\$ 1,148,941	\$ 1,100,058
Gross profit (excluding depreciation).....	385,486	374,529	355,662	338,394	332,992
Depreciation.....	25,247	24,386	21,535	21,581	20,118
Amortization.....	4,252	4,657	6,367	5,924	5,270
Income from operations	153,727	143,522	126,345	132,857	122,755
Income from continuing operations (b).....	85,979	81,831	74,037	68,369	60,440
Net income (b).....	85,979	81,831	73,784	67,281	61,641
Earnings per share					
Income from continuing operations.....	\$ 4.19	\$ 3.62	\$ 3.30	\$ 2.97	\$ 2.46
Net income.....	4.19	3.62	3.29	2.92	2.51
Average number of shares outstanding.....	20,523	22,587	22,451	23,058	24,520
Diluted earnings per share					
Income from continuing operations.....	\$ 4.10	\$ 3.55	\$ 3.26	\$ 2.93	\$ 2.41
Net income.....	4.10	3.55	3.24	2.88	2.46
Average number of shares outstanding.....	20,945	23,031	22,742	23,374	25,077
Cash dividends per share.....	\$ 0.60	\$ 0.52	\$ 0.36	\$ 0.24	\$ 0.24
Financial Position—Year-End					
Cash and cash equivalents.....	\$ 38,081	\$ 49,917	\$ 112,416	\$ 3,628	\$ 4,988
Working capital/(deficit).....	5,353	47,455	62,174	(18,142)	(13,427)
Current ratio.....	1.04	1.32	1.46	0.88	0.91
Properties and equipment, at cost less accumulated depreciation.....	\$ 82,951	\$ 79,292	\$ 75,358	\$ 76,962	\$ 74,513
Total assets.....	795,905	830,161	819,470	759,622	768,945
Long-term debt.....	166,784	159,208	152,127	158,210	163,715
Stockholders' equity.....	413,684	462,049	477,162	396,831	395,800
Other Statistics—Continuing Operations					
Capital expenditures.....	\$ 29,592	\$ 25,639	\$ 21,496	\$ 26,094	\$ 26,640
Number of employees.....	13,733	13,058	12,308	11,884	11,783

(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):

	2011	2010	2009	2008	2007
After-tax benefit/(cost):					
Stock option expense	\$ (5,298)	\$ (4,909)	\$ (5,464)	\$ (4,619)	\$ (2,962)
Noncash impact of change in accounting for convertible debt	(4,664)	(4,313)	(3,988)	(4,006)	(2,335)
Long-term incentive compensation	(1,880)	(2,957)	(3,134)	-	(4,427)
Costs related to litigation settlements	(1,397)	(1,126)	(534)	-	(1,168)
Expenses incurred in connection with the Office of Inspector General investigation	(737)	(627)	(363)	(28)	(141)
Acquisition expense	(75)	(198)	-	-	-
Expenses associated with contested proxy solicitation	-	-	(2,525)	-	-
Non-taxable income on certain investments held in deferred compensation trusts	-	-	1,211	-	-
Income tax impact of nondeductible losses on investments held in deferred compensation trusts	-	-	(455)	(3,062)	(46)
Gain/(loss) on extinguishment of debt	-	-	-	2,934	(8,778)
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	-
Gain on sale of property	-	-	-	-	724
Other	-	-	-	-	296
Total	\$ (14,051)	\$ (14,130)	\$ (15,252)	\$ (10,531)	\$ (18,837)

UNAUDITED CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2011
(in thousands)(unaudited)

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

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

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	\$ -	\$ -	\$ (8,376)	\$ (8,376)
Noncash impact of change in accounting for convertible debt	-	-	(7,374)	(7,374)
Long-term incentive compensation	-	-	(3,012)	(3,012)
Expenses of class action litigation	-	(2,299)	-	(2,299)
Acquisition expense	(147)	26	-	(121)
Expenses incurred in connection with the Office of Inspector General investigation	(1,188)	-	-	(1,188)
Total	\$ (1,335)	\$ (2,273)	\$ (18,762)	\$ (22,370)

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

UNAUDITED CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands)(unaudited)

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

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

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

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

UNAUDITED CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2009
(in thousands)(unaudited)

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

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

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

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

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, 2011, 2010 and 2009 (in thousands except percentages and per share amounts):

	2011	2010	2009
Consolidated service revenues and sales	\$ 1,355,970	\$ 1,280,545	\$ 1,190,236
Consolidated income from continuing operations	\$ 85,979	\$ 81,831	\$ 74,037
Diluted EPS from continuing operations	\$ 4.10	\$ 3.55	\$ 3.26
Adjusted EBITDA*	\$ 197,273	\$ 189,395	\$ 177,050
Adjusted EBITDA as a % of revenue*	14.5%	14.8%	14.9%

*See page 51 for reconciliation to GAAP measures

Earnings before interest, taxes and depreciation and amortization ("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 also use adjusted EBITDA to determine compliance with certain debt covenants. 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.

2011 versus 2010

The increase in consolidated service revenues and sales from 2010 to 2011 was driven by a 6.5% increase at VITAS and a 4.2% increase at Roto-Rooter. The increase at VITAS was the result of an increase in average daily census ("ADC") of 5.5%, driven by an increase in admissions of 2.8%, combined with Medicare price increases of approximately 2.1%. The increase at Roto-Rooter was driven by a 2.2% price and mix shift increase as well as a 2.0% increase in job count. Consolidated income from continuing operations increased 5.1% 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 and a decrease in the number of shares outstanding. Adjusted EBITDA increased 4.2% from 2010 to 2011 mainly as a result of increased earnings.

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 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 EBITDA increased 7.0% from 2009 to 2010 mainly as a result of increased earnings.

Impact of Current Market Conditions

We expect Roto-Rooter to achieve full-year 2012 revenue growth of 4.0% to 5.0%. This is a result of increased pricing of approximately 2.0%, a favorable mix shift to higher revenue jobs, and job count growth estimated at 0% to 1.5%. Adjusted EBITDA margin for 2012 is estimated in the range of 17.0% to 18.0%.

We expect VITAS to achieve full-year 2012 revenue growth, prior to Medicare cap, of 5.0% to 8.0%. Admissions are estimated to increase 2.5% to 4.0%. This revenue estimate includes the October 1, 2011, 2.5% increase in average hospice reimbursement rates. We also expect VITAS to have estimated Medicare contractual billing limitations of \$5.0 million. Adjusted EBITDA margin, prior to Medicare cap, for 2012 is estimated to be in the range of 15.0% to 15.5%.

LIQUIDITY AND CAPITAL RESOURCES

Significant factors affecting our cash flows during 2011 and financial position at December 31, 2011, include the following:

- Our continuing operations generated cash of \$174.3 million;
- We repurchased \$147.9 million of our stock using cash on hand;
- Accounts receivable decreased \$26.9 million due to timing of receipts;
- We spent \$29.6 million on capital expenditures.

The ratio of total debt to total capital was 28.7% at December 31, 2011, compared with 25.6% at December 31, 2010. Our current ratio was 1.04 and 1.32 at December 31, 2011 and 2010, respectively.

Collectively, the 2011 Credit Agreement and the Notes require us to meet certain restrictive non-financial and financial covenants. We are in compliance with all non-financial debt covenants as of December 31, 2011. The restrictive financial covenants are defined in the 2011 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, 2011, as follows:

Description	Requirement	Chemed
Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA)	< 3.50 to 1.00	1.09 to 1.00
Fixed Charge Coverage Ratio (Consolidated Free Cash Flow/Consolidated Fixed Charges)	> 1.50 to 1.00	2.47 to 1.00
Annual Operating Lease Commitment	< \$30.0 million	\$19.8 million

We forecast to be in compliance with all debt covenants through fiscal 2012.

We have issued \$29.5 million in standby letters of credit as of December 31, 2011, mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of December 31, 2011, we have approximately \$320.5 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility, excluding the \$150 million expansion feature. We believe our cash flow from operating activities and our unused eligible lines of credit are sufficient to fund our obligations 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 2011, 2010 and 2009 are summarized as follows (in millions):

	For the Years Ended December 31,		
	2011	2010	2009
Net cash provided by operating activities	\$ 174.3	\$ 86.0	\$ 160.8
Capital expenditures	(29.6)	(25.6)	(21.5)
Operating cash after capital expenditures	144.7	60.4	139.3
Purchase of treasury stock	(147.9)	(109.3)	(4.2)
Repayment of long-term debt	-	-	(22.9)
Business combinations	(3.7)	(9.5)	(1.9)
Dividends paid	(12.5)	(11.9)	(8.2)
Proceeds from exercise of stock options	8.0	5.3	0.5
Other--net	(0.4)	2.5	6.2
(Decrease)/increase in cash and cash equivalents	\$ (11.8)	\$ (62.5)	\$ 108.8

COMMITMENTS AND CONTINGENCIES

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

In connection with the sale of DuBois Chemicals, Inc. ("DuBois") in 1991, we provided allowances and accruals relating to several long-term costs, including income tax matters, lease commitments and environmental costs. Additionally, we retained liability for casualty insurance claims for Service America and Patient Care that were incurred prior to the respective disposal dates, 2005 and 2002. In the aggregate, we believe these allowances and accruals are adequate as of December 31, 2011. 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, 2011, 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. 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. We contest these allegations. In December 2009, the trial court denied Plaintiffs' motion for class certification. In July 2011, the Court of Appeals affirmed denial of class certification on the travel time, meal and rest period claims, and reversed the trial court's denial on the off-the-clock and sales representation exemption claims. Plaintiffs have filed an appeal of this decision. We are unable to estimate our potential liability or potential range of loss, if any, with respect to this case.

On November 14, 2011, Luann and Michael Cosgrove and Dawn Mills filed a class action lawsuit against Roto-Rooter in Minnesota state district court for the 4th Judicial District alleging unnecessary excavation work in Minnesota. We removed the case to federal court. Plaintiffs seek damages, injunctive relief, attorney fees and interest. We contest these allegations. This lawsuit is in its early stage and we are unable to estimate our potential liability, if any, with respect to these allegations.

On January 12, 2012, the Greater Pennsylvania Carpenters Pension Fund filed a putative class action lawsuit in the United States District Court for the Southern District of Ohio against the Company, Kevin McNamara, David Williams, and Tim O'Toole. It alleges violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 against all defendants, and violation of Section 20(a) of the Securities Exchange Act of 1934 against the individual defendants. The suit, Greater Pennsylvania Carpenters Pension Fund v. Chemed Corp., et al., Civil Action No. 1:12-cv-28 (S.D. Ohio), concerns the VITAS hospice segment of the Company's business. Plaintiff seeks, on behalf of a putative class of purchasers of Chemed Capital Stock between February 15, 2010, and November 16, 2011, compensatory damages in an unspecified amount and attorneys' fees and expenses, arising from defendants' failure to disclose an alleged fraudulent scheme to enroll ineligible hospice patients and to fraudulently obtain payments from the federal government. Defendants believe the allegations are without merit, and intend to defend vigorously against them.

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. In April 2011, the U.S. Attorney provided the Company with a copy of a qui tam complaint filed under seal in the U.S. District Court for the Northern District of Texas. The Court unsealed this complaint in November 2011. The U.S. Attorney and the Attorney General for the State of Texas filed a notice in November 2011 that they had decided not to intervene at that time in the case. They continue to investigate its allegations. It was brought by Michael Rehfelt, a former Vitas San Antonio program general manager, against Vitas, the program's former Regional Vice President Keith Becker, its former Medical Director Justos Cisneros, and their current employers: Wellmed Medical Management, Care Level Management LLC, and Inspiris Inc. It alleges admission and recertification of inappropriate patients, backdating revocations, and conspiring with HMO defendants to admit inappropriate patients to hospice. In June 2011, the U.S. Attorney provided the Company with a partially unsealed second qui tam complaint filed under seal in the U.S. District Court for the Western District of Texas. In June 2011, the U.S. Attorney also provided the Company with a partially unsealed third qui tam complaint filed under seal in the Northern District of Illinois, Eastern Division. We are conferring with the U.S. Attorney regarding the Company's defenses to each complaint's allegations. 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, 2011 (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	8,763	3,505	5,258	-	-
Operating lease obligations	63,848	19,797	27,025	14,880	2,146
Purchase obligations (b)	48,225	48,225	-	-	-
Other long-term obligations (c)	37,261	-	3,284	3,284	30,693
Total contractual cash obligations	<u>\$ 345,053</u>	<u>\$ 71,527</u>	<u>\$ 222,523</u>	<u>\$ 18,164</u>	<u>\$ 32,839</u>

(a) Represents the face value of the obligation.

(b) Purchase obligations primarily consist of accounts payable at December 31, 2011.

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

RESULTS OF OPERATIONS

2011 Versus 2010 – Consolidated Results

Set forth below are the year-to-year changes in the components of the statement of operations relating to continuing operations for 2011 versus 2010 (in thousands, except percentages):

	Favorable/(Unfavorable)	
	Amount	Percent
Service revenues and sales		
VITAS	\$ 60,462	7 %
Roto-Rooter	14,963	4
Total	75,425	6
Cost of services provided and goods sold	(64,468)	(7)
Selling, general and administrative expenses	(296)	-
Depreciation	(861)	(4)
Amortization	405	9
Income from operations	10,205	7
Interest expense	(1,929)	(16)
Other income--net	(1,551)	(68)
Income before income taxes	6,725	5
Income taxes	(2,577)	(5)
Income from continuing operations	<u>\$ 4,148</u>	5

Our service revenues and sales for the year ended December 31, 2011 increased \$75.4 million or 5.9% over the comparable prior year. The VITAS segment accounted for \$60.4 million of the increase and Roto-Rooter accounted for \$15.0 million of the increase.

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

	Amount	Percent
Routine homecare	\$ 52,096	8 %
Continuous care	5,416	4
General inpatient	5,154	5
Medicare cap	(2,204)	(361)
Total revenues	<u>\$ 60,462</u>	7

The increase in VITAS' revenue from 2010 to 2011 was a result of increased ADC of 5.5% driven by an increase in admissions of 2.8%, combined with Medicare price increases of approximately 2.1%. The ADC increase was driven by a 5.7% increase in routine homecare, an increase of 1.2% in continuous care, and a 3.5% increase in general inpatient. ADC is a key measure we use to monitor volume growth in our hospice programs. Changes in total program admissions, discharges and average length of stay for our patients are the main drivers of changes in ADC. The Medicare cap amount recorded in 2011 relates to the reversal of \$786,000, net of Medicare cap liability for the 2011 measurement period recorded in the fourth quarter of 2010 offset by \$2.6 million in Medicare cap liability for three programs' projected 2012 measurement period liability. We also reversed the remaining Medicare cap liability for our Phoenix program due to expiration for the period under review.

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

	<u>Amount</u>	<u>Percent</u>	
Plumbing	\$ 8,738	5	%
Sewer and drain cleaning	3,228	2	
Contractor operations	3,768	16	
Other	(771)	(3)	
Total revenues	<u>\$ 14,963</u>	4	

Plumbing revenues for 2011 increased from 2010 due to a 4.4% increase in the number of jobs performed and a 0.9% increase in the average price per job. Sewer and drain cleaning revenues for 2011 increased from 2010 due to a 1.7% increase in the average price per job and an increase of 0.9% in the number of jobs performed. Contractor operations revenue increased 16.4% as a result of performance by recent acquisitions and higher job count.

The consolidated gross margin was 28.4% in 2011 versus 29.2% in 2010. On a segment basis, VITAS' gross margin was 22.3% in 2011 and 23.4% in 2010. Roto-Rooter's gross margin was 44.9% in 2011 and 44.5% in 2010. The decrease in VITAS' gross margin is attributable to higher labor costs for admissions and Medicare compliance personnel and the opening of new operations, both new locations and new inpatient units, which carry significant start-up costs as capacity begins to ramp up.

Selling, general and administrative expenses ("SG&A") for 2011 comprise (in thousands):

	<u>2011</u>	<u>2010</u>
SG&A expenses before long-term incentive compensation and the impact of market gains of deferred compensation plans	\$ 198,449	\$ 195,020
Long-term incentive compensation	3,012	4,734
Impact of market value gains on liabilities held in deferred compensation trusts	799	2,210
Total SG&A expenses	<u>\$ 202,260</u>	<u>\$ 201,964</u>

Normal salary increases and revenue related expenses between periods account for the 1.8% increase in SG&A expenses before long-term incentive compensation and the impact of market gains of deferred compensation plans

Depreciation expense increased \$861,000 (3.5%) in 2011 mainly due to the installation of patient capture software at our VITAS segment in the second quarter of 2010.

Interest expense increased \$1.9 million (16.1%) from 2010 to 2011 primarily as a result of higher costs of our expanded revolving line of credit starting in the first quarter of 2011.

Other income-net for 2011 and 2010 comprise (in thousands):

	<u>2011</u>	<u>2010</u>
Market value gains on assets held in deferred compensation trusts	\$ 799	\$ 2,210
Loss on disposal of property and equipment	(441)	(425)
Interest income	426	444
Other	(67)	39
Total other income	<u>\$ 717</u>	<u>\$ 2,268</u>

Our effective tax rate was 38.8% in 2011 compared to 38.9% in 2010.

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

	<u>2011</u>	<u>2010</u>
VITAS		
Costs associated with the OIG investigation	\$ (737)	\$ (627)
Acquisition expense	(91)	(42)
Roto-Rooter		
Costs related to litigation settlements	(1,397)	(1,126)
Acquisition expense	16	(156)
Corporate		
Long-term incentive compensation	(1,880)	(2,957)
Noncash impact of change in accounting of convertible debt	(4,664)	(4,313)
Stock option expense	(5,298)	(4,909)
Total	<u>\$ (14,051)</u>	<u>\$ (14,130)</u>

2011 Versus 2010 – Segment Results

The change in net income for 2011 versus 2010 is due to (in thousands, except percentages):

	<u>Increase/(Decrease)</u>		
	<u>Amount</u>	<u>Percent</u>	
VITAS	\$ 562	1	%
Roto-Rooter	3,201	10	
Corporate	385	1	
	<u>\$ 4,148</u>	5	

RESULTS OF OPERATIONS

2010 Versus 2009 – Consolidated Results

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

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

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

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

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

The increase in VITAS' revenue from 2009 to 2010 was a result of increased ADC of 6.1% driven by an increase in admissions of 5.6%, combined with Medicare price increases of approximately 1.3%. The ADC increase was driven by a 6.1% increase in routine homecare, an increase of 5.3% in continuous care, and a 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 Budget Neutrality Adjustment Factor ("BNAF") was recorded in the first quarter of 2009 but related to hospice care provided in the fourth quarter of 2008 and did not recur in 2010. The Medicare cap amount recorded in 2010 relates to the reversal of \$1.7 million, net of Medicare cap liability for the 2010 measurement period recorded in the fourth quarter of 2009 offset by \$1.1 million in Medicare cap liability for three programs' projected 2011 measurement period liability.

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

	Amount	Percent
Plumbing	\$ 17,553	12 %
Sewer and drain cleaning	(799)	(1)
Contractor operations	1,323	6
Other	765	3
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 job for excavation work is approximately 5.5 times greater than other 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. Contractor operations revenue increased 6.1% as a result of acquisitions and higher job count. The increase in other revenues is attributable to 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 lower 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	\$ 195,020	\$ 187,828
Long-term incentive compensation	4,734	5,007
Impact of market value gains on liabilities held in deferred compensation trusts	2,210	4,591
Total SG&A expenses	<u>\$ 201,964</u>	<u>\$ 197,426</u>

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-net for 2010 and 2009 comprise (in thousands):

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

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

In December 2009, we recorded a \$400,000 pretax 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

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, 2011.

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, 2011, we reversed Medicare cap liability for amounts recorded in the fourth quarter of 2010 for two programs' projected 2011 measurement period liability. This reversal was partially offset by the Medicare cap liability for three programs' projected 2012 measurement period liability. For the year ended December 31, 2010, we recorded pretax charges in continuing operations for the estimated Medicare cap liability for two programs' projected liability through year end for the 2011 measurement period. The majority of the liability relates to one program which is VITAS' largest hospice. This amount was subsequently reversed during the 2011 fiscal year due to increased admission trends. Shown below is the Medicare cap liability activity for the years end December 31, 2011 and 2010 (in thousands):

	2011	2010
Beginning Balance January 1,	\$ 1,371	\$ 1,981
Expense - 2012 measurement period	2,578	-
Reversal - 2011 measurement period	(786)	-
Expense - 2011 measurement period	-	1,110
Reversal - 2010 measurement period	-	(1,720)
Other	(198)	-
Ending Balance December 31,	<u>\$ 2,965</u>	<u>\$ 1,371</u>

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, 2011, 2010 and 2009 were net, pretax debits/(credits) of \$(17,000), \$165,000 and (\$1.9 million), 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, 2011, by \$2.1 million or 5.7%. 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 \$2.9 million as of December 31, 2011.

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 date of our annual goodwill and indefinite-lived intangible asset impairment analysis is October 1. The VITAS trade name is considered to have an indefinite life. We also capitalize the direct costs of obtaining licenses to operate either hospice programs or plumbing operations subject to a minimum capitalization threshold. These costs are amortized over the life of the license using the straight line method. Certificates of Need (CON), which are required in certain states for hospice operations, are generally granted without expiration and thus, we believe them to be indefinite-lived assets subject to impairment testing.

For valuing the VITAS tradename, we perform a discounted cash flow analysis on the expected theoretical royalty cash stream from the VITAS tradename. For valuing capitalized CON costs, we perform a discounted cash flow analysis on the expected income from the operating unit projecting income on a "with and without" basis. This method compares the expected income stream from the operating unit with a theoretical income stream assuming that the applicable state did not have a CON requirement. The difference in the discounted income streams is attributed as being the fair value of the CON. Based on these calculations, neither the VITAS tradename nor the capitalized CON costs are impaired.

The valuations performed relative to the VITAS tradename and capitalized CON costs are particularly sensitive to our projections of future revenue and net income. Additionally, the rate at which we would lose market share in a given program if a state repealed its CON requirements is a key assumption in our capitalized CON cost valuation model.

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

In September 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-08 – Goodwill Impairment Testing which provides additional guidance related to the impairment testing of goodwill. ASU No. 2011-08 allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill

impairment test. An entity will no longer be required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The revised guidance is effective for fiscal years beginning after December 15, 2011, but early adoption is permitted. Our most recent quantitative analysis, performed as of October 1, 2010, indicated that the enterprise value our reporting units substantially exceeded their carrying value. We adopted the new guidelines for our impairment test conducted as of October 1, 2011. Based on our review of qualitative factors, such as financial performance of the reporting units and the macro-economic environment, we determined it was more likely than not that the fair value of each of our reporting units exceeded their respective recorded values. Accordingly, we concluded that the two-step quantitative goodwill impairment test is not necessary.

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. We establish reserves for specific, uninsured liabilities in connection with regulatory and legal action that we deem to be probable and estimable. We record legal fees associated with legal and regulatory actions as the costs are incurred. We disclose material loss contingencies that probable but not reasonably estimable and those that are at least reasonably possible.

RECENT ACCOUNTING STATEMENTS

In May 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-04 – Fair Value Measures. ASU No. 2011-04 provides amendments to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in U.S. GAAP and IFRS. The guidance is effective for fiscal years beginning after December 15, 2011. There was no material impact to the Company's financial statements as a result of ASU No. 2011-04.

In July 2011, the FASB issued ASU No. 2011-07 – Health Care Entities which provides additional guidance to health care entities related to the recognition of patient service revenue and related disclosures. The additional guidance is effective for fiscal years beginning after December 15, 2011, but early adoption is permitted. There was no material impact on the Company upon adoption of ASU No. 2011-07.

Consolidating Summary of Adjusted EBITDA

(in thousands)

2011	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss).....	\$ 80,358	\$ 34,879	\$ (29,258)	\$ 85,979
Add/(deduct):				
Interest expense.....	229	358	13,301	13,888
Income taxes.....	48,835	21,353	(15,611)	54,577
Depreciation.....	16,583	8,130	534	25,247
Amortization.....	1,897	599	1,756	4,252
EBITDA.....	147,902	65,319	(29,278)	183,943
Add/(deduct):				
Long-term incentive compensation.....	-	-	3,012	3,012
Litigation settlement costs.....	-	2,299	-	2,299
Legal expenses of OIG investigation.....	1,188	-	-	1,188
Acquisition Expense.....	147	(26)	-	121
Stock option expense.....	-	-	8,376	8,376
Advertising cost adjustment.....	-	(1,240)	-	(1,240)
Interest income.....	(295)	(40)	(91)	(426)
Intercompany interest/(expense).....	(3,998)	(2,136)	6,134	-
Adjusted EBITDA.....	\$ 144,944	\$ 64,176	\$ (11,847)	\$ 197,273
2010	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss).....	\$ 79,796	\$ 31,678	\$ (29,643)	\$ 81,831
Add/(deduct):				
Interest expense.....	131	233	11,595	11,959
Income taxes.....	48,601	19,547	(16,148)	52,000
Depreciation.....	16,161	7,775	450	24,386
Amortization.....	2,739	514	1,404	4,657
EBITDA.....	147,428	59,747	(32,342)	174,833
Add/(deduct):				
Long-term incentive compensation.....	-	-	4,734	4,734
Litigation settlement costs.....	-	1,853	-	1,853
Legal expenses of OIG investigation.....	1,012	-	-	1,012
Acquisition Expense.....	68	256	-	324
Stock option expense.....	-	-	7,762	7,762
Advertising cost adjustment.....	-	(679)	-	(679)
Interest income.....	(220)	(49)	(175)	(444)
Intercompany interest/(expense).....	(4,632)	(2,612)	7,244	-
Adjusted EBITDA.....	\$ 143,656	\$ 58,516	\$ (12,777)	\$ 189,395
2009	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss).....	\$ 71,696	\$ 33,040	\$ (30,952)	\$ 73,784
Add/(deduct):				
Discontinued operations.....	-	-	253	253
Interest expense.....	374	186	11,039	11,599
Income taxes.....	43,637	20,372	(17,426)	46,583
Depreciation.....	13,269	8,068	198	21,535
Amortization.....	4,704	441	1,222	6,367
EBITDA.....	133,680	62,107	(35,666)	160,121
Add/(deduct):				
Long-term incentive compensation.....	-	-	5,007	5,007
Non-taxable income from certain investments held in deferred compensation trusts.....	-	-	(1,211)	(1,211)
Litigation settlement costs.....	-	882	-	882
Expenses associated with contested proxy solicitation.....	-	-	3,989	3,989
Legal expenses of OIG investigation.....	586	-	-	586
Stock option expense.....	-	-	8,639	8,639
Advertising cost adjustment.....	-	(540)	-	(540)
Interest income.....	(267)	(73)	(83)	(423)
Intercompany interest/(expense).....	(4,314)	(2,514)	6,828	-
Adjusted EBITDA.....	\$ 129,685	\$ 59,862	\$ (12,497)	\$ 177,050

OPERATING STATISTICS FOR VITAS SEGMENT

(unaudited)

OPERATING STATISTICS	Three Months Ended December 31,		Year Ended December 31,	
	2011	2010	2011	2010
Net revenue (\$000)				
Homecare.....	\$ 188,782	\$ 176,517	\$ 718,658	\$ 666,562
Inpatient.....	27,882	27,344	110,742	105,588
Continuous care.....	40,516	39,463	158,466	153,050
Total before Medicare cap allowance.....	\$ 257,180	\$ 243,324	\$ 987,866	\$ 925,200
Medicare cap allowance.....	(2,620)	(1,056)	(1,594)	610
Total.....	\$ 254,560	\$ 242,268	\$ 986,272	\$ 925,810
Net revenue as a percent of total before Medicare cap allowance				
Homecare.....	73.4 %	72.6 %	72.7 %	72.0 %
Inpatient.....	10.8	11.2	11.2	11.4
Continuous care.....	15.8	16.2	16.1	16.6
Total before Medicare cap allowance.....	100.0	100.0	100.0	100.0
Medicare cap allowance.....	(1.0)	(0.4)	(0.2)	0.1
Total.....	99.0 %	99.6 %	99.8 %	100.1 %
Average daily census (days)				
Homecare.....	9,582	8,851	9,285	8,476
Nursing home.....	3,092	3,193	3,069	3,207
Routine homecare.....	12,674	12,044	12,354	11,683
Inpatient.....	443	436	449	434
Continuous care.....	607	600	603	596
Total.....	13,724	13,080	13,406	12,713
Total Admissions.....	15,191	14,776	60,162	58,526
Total Discharges.....	15,289	15,038	60,393	57,817
Average length of stay (days).....	79.0	80.8	78.8	78.1
Median length of stay (days).....	14.0	15.0	14.0	14.0
ADC by major diagnosis				
Neurological.....	34.0 %	33.9 %	34.4 %	33.6 %
Cancer.....	17.8	18.3	17.7	18.4
Cardio.....	11.3	11.7	11.5	11.9
Respiratory.....	6.4	6.6	6.7	6.6
Other.....	30.5	29.5	29.7	29.5
Total.....	100.0 %	100.0 %	100.0 %	100.0 %
Admissions by major diagnosis				
Neurological.....	19.4 %	19.5 %	19.4 %	18.8 %
Cancer.....	34.4	34.4	33.5	34.5
Cardio.....	10.8	11.0	10.8	11.3
Respiratory.....	7.6	7.4	8.3	8.0
Other.....	27.8	27.7	28.0	27.4
Total.....	100.0 %	100.0 %	100.0 %	100.0 %
Direct patient care margins				
Routine homecare.....	53.2 %	54.0 %	52.3 %	52.4 %
Inpatient.....	13.1	14.4	12.9	13.6
Continuous care.....	19.9	22.6	20.3	21.4
Homecare margin drivers (dollars per patient day)				
Labor costs.....	\$ 52.92	\$ 51.97	\$ 53.63	\$ 52.57
Drug costs.....	8.31	7.89	8.19	7.81
Home medical equipment.....	6.78	5.84	6.69	6.48
Medical supplies.....	2.79	2.67	2.80	2.56
Inpatient margin drivers (dollars per patient day)				
Labor costs.....	\$ 320.43	\$ 305.19	\$ 312.78	\$ 299.54
Continuous care margin drivers (dollars per patient day)				
Labor costs.....	\$ 559.11	\$ 533.32	\$ 552.38	\$ 531.69
Bad debt expense as a percent of revenues.....	0.6 %	0.7 %	0.7 %	0.9 %
Accounts receivable --				
Days of revenue outstanding- excluding unapplied Medicare payments.....	36.7	38.2	N.A.	N.A.
Days of revenue outstanding- including unapplied Medicare payments.....	22.3	36.5	N.A.	N.A.

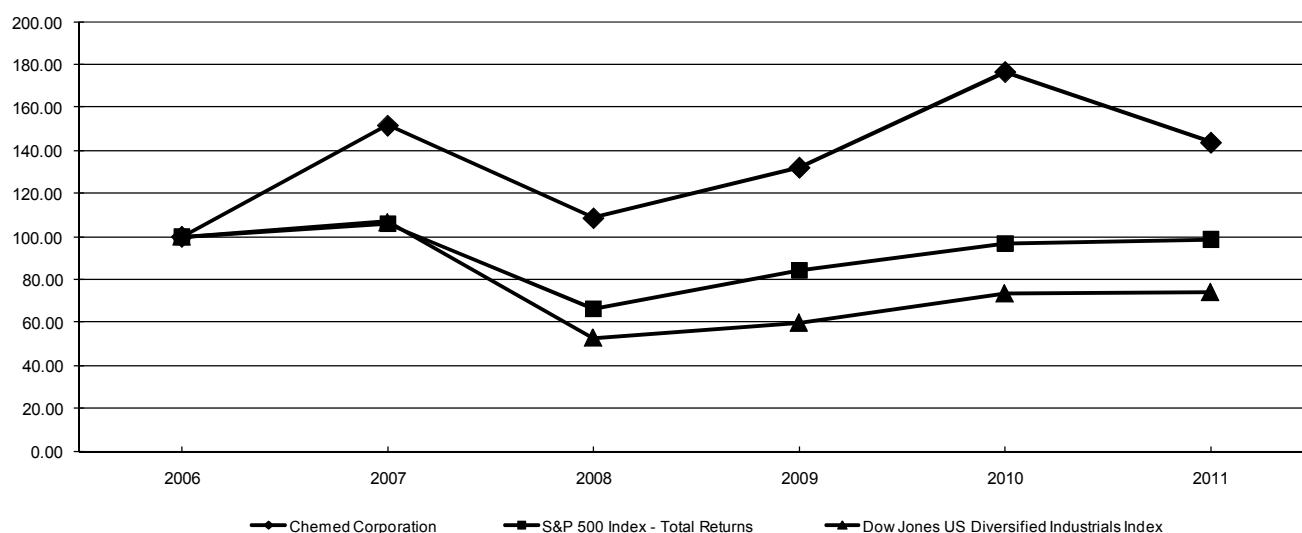
SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 REGARDING FORWARD-LOOKING INFORMATION

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 Diversified Industrials Index for the five-year period commencing January 3 2006, the first trading day of fiscal 2006, and ending December 30, 2011, the last trading day of fiscal 2011. The graph assumes \$100 was invested at the closing price of the Company's common stock on the New York Stock Exchange and each index on January 3, 2006, 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, 2011 (in dollars)



December 31,	2006	2007	2008	2009	2010	2011
Chemed Corporation	100.00	151.74	108.64	132.15	176.64	143.84
S&P 500 -- Total Returns	100.00	105.50	66.45	84.03	96.69	98.73
Dow Jones US Diversified Industrials Index	100.00	106.61	52.62	59.72	73.37	73.96

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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

Lisa A. Reinhard

Vice President and Chief Administrative Officer

Thomas C. Hutton

Vice President

Thomas J. Reilly

Vice President

Directors

Kevin J. McNamara

President and Chief Executive Officer,
Chemed Corporation

Joel F. Gemunder ⁽³⁾

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

Patrick P. Grace ^(1, 3*)

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

Thomas C. Hutton

Vice President, Chemed Corporation

Walter L. Krebs ⁽²⁾

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

Andrea R. Lindell ⁽²⁾

Director, Doctoral Program,
School of Nursing,
Walden University

Thomas P. Rice ⁽¹⁾

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

Donald E. Saunders ^(1*)

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

George J. Walsh III ^(2*, 3)

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

Frank E. Wood ⁽²⁾

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

1) Audit Committee

2) Compensation/Incentive Committee

3) Nominating Committee

* Committee Chairman

Corporate Information

Corporate Headquarters

Chemed Corporation
255 East Fifth Street
Suite 2600
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.shareowneronline.com

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.

Independent Accountants

PricewaterhouseCoopers LLP
Cincinnati, Ohio 45202

Annual Meeting

The Annual Meeting of Shareholders of Chemed Corporation, will be held on Monday, May 21, 2012, 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 2,291 on December 31, 2011. (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
2011			
First Quarter	\$66.71	\$61.69	\$ 0.14
Second Quarter	72.02	63.94	0.14
Third Quarter	67.08	50.64	0.16
Fourth Quarter	60.68	48.24	0.16
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

CHEMED CORPORATION

255 East Fifth Street

Suite 2600

Cincinnati, Ohio 45202-4726

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www.chemed.com



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www.rotorooter.com