Table of Contents

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

☑ **For the fiscal year ended December 31, 2006**

or

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

For the Transition period from __________ to __________

Commission File Number: 1-8351

CHEMED CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**31-0791746** (I.R.S. Employer Identification Number)
2600 Chemed Center, 255 East Fifth Street, Cincinnati, Ohio (Address of principal executive offices)	45202-4726 (Zip Code)

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the average bid and asked price of said stock on the New York Stock Exchange — Composite Transaction Listing on June 30, 2006 ($55.08 per share), was $1,412,959,584.

At February 15, 2007, 26,641,020 shares of Chemed Capital Stock (par value $1 per share) were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Where Incorporated

2006 Annual Report to Stockholders (specified portions)	Parts I, II and IV
Proxy Statement for Annual Meeting to be held May 21, 2007	Part III

CHEMED CORPORATION

2006 FORM 10-K ANNUAL REPORT

Table of Contents

Item 1. Business

General

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

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

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

On April 2, 1991, the Company completed the sale of DuBois Chemicals, Inc. ("DuBois"), a wholly owned subsidiary, to the Diversey Corporation ("Diversey"), then a subsidiary of The Molson Companies Ltd. Under the terms of the sale, Diversey agreed to pay the Company net cash payments aggregating $223,386,000, including deferred payments aggregating $32,432,000.

On December 21, 1992, the Company acquired The Veratex Corporation and related businesses ("Veratex Group") from Omnicare, Inc. The purchase price was $62,120,000 in cash paid at closing, plus a post-closing payment of $1,514,000 (paid in April 1993) based on the net assets of Veratex.

Effective January 1, 1994, the Company acquired all the capital stock of Patient Care, Inc. ("Patient Care"), for cash payments aggregating $20,582,000, plus 35,000 shares of the Company's Capital Stock. An additional cash payment of $1,000,000 was made on March 31, 1996 and another payment of $1,000,000 was made on March 31, 1997.

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

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

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

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

Effective October 11, 2002, the Company sold its Patient Care subsidiary ("Patient Care") to an investor group that included Schroder Ventures Life Sciences Group, Oak Investment Partners, Prospect Partners and Salix Ventures. The cash proceeds to the Company totaled $57,500,000, of which $5,000,000 was placed in escrow pending settlement of Patient Care's receivables with third-party payers. Of this amount, $2,500,000 was distributed as of October 2003, $1,730,958 was distributed as of November 2004 and the remainder was distributed as of October 2006. In addition, the Company received a senior subordinated note receivable ("Note") for $12,500,000 and a common stock purchase warrant ("Warrant") for 2% of the outstanding stock of the purchasing company. The Note is due October 11, 2007, and bears interest at the annual rate of 7.5% through September 30, 2004, 8.5% from October 1, 2004, through September 30, 2005, and 9.5% thereafter. This sale was the subject of litigation which settled in October 2006. We agreed to forgive $1.2 million of post-closing balance sheet valuation adjustments and convert the remainder into debt secured by a $2.2 million promissory note with the same terms as the $12.5 million long-term receivable. As part of the settlement, we also recorded a pretax impairment charge of $1.4 million related to the Warrant.

Effective February 24, 2004, the Company completed a merger of its wholly owned indirect subsidiary, Marlin Merger Corp., and Vitas Healthcare Corporation. Under the terms of the merger agreement, Vitas stockholders received cash of $30.00 per share. The transaction, including the refinancing of existing Vitas debt and other payments made in connection with the merger, totaled approximately $415 million in cash. In order to complete the merger the Company sold four million shares of its Capital Stock in a private placement at a price of $25.00 per share, issued $110 million principal amount of floating rate senior secured notes due 2010 ("Floating Rate Notes"), issued $150 million principal amount of 8.75% Senior Notes due 2011 ("Fixed Rate Notes"), and entered into new $135 million senior secured credit facilities. These obligations were refinanced on February 24, 2005 and again on March 31, 2006.

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

During 2006 the Company conducted its business operations in two segments: Vitas Group ("Vitas") and Roto-Rooter Group ("Roto-Rooter").

Forward Looking Statements

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

Financial Information about Industry Segments

The required segment and geographic data for the Company's continuing operations (as described below) for the three years ended December 31, 2004, 2005 and 2006 are shown in Note 3 of the Notes to Consolidated Financial Statements on pages 16-17 of the 2006 Annual Report to Stockholders and are incorporated herein by reference.

Description of Business by Segment

The information called for by this item is included within Note 3 of the Notes to Consolidated Financial Statements appearing on pages 16-17 of the 2006 Annual Report to Stockholders and is incorporated herein by reference.

Product and Market Development

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

Raw Materials

The principal raw materials needed for the Company's manufacturing operations are purchased from United States sources. No segment of the Company experienced any material raw material shortages during 2006, although such shortages may occur in the future. Products manufactured and sold by the Company's Roto-Rooter segment generally may be reformulated to avoid the adverse impact of a specific raw material shortage.

Patents, Service Marks and Licenses

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

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

Competition

Roto-Rooter

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

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

Vitas

Hospice care in the United States is competitive. Because payments for hospice services are generally uniform, Vitas competes primarily on the basis of its ability to deliver quality, responsive services. Vitas is the nation's largest provider of hospice services in a market dominated by small, non-profit, community-based hospices. Approximately 60% of all hospices are not-for-profit. Because the hospice care market is highly fragmented, Vitas competes with a large number of organizations.

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

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

Research and Development

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

Government Regulations

Roto-Rooter

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

Vitas

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

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

The Medicare conditions of participation for hospice programs include the following:

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

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

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

Professional Management of Non-Core Services. A hospice may arrange to have non-core services such as therapy services, home health aide services, medical supplies or drugs provided by a non-employee or outside entity. If the hospice elects to use an independent contractor to provide non-core services, however, the hospice must retain professional management responsibility for the arranged services and ensure that the services are furnished in a safe and effective manner by qualified personnel, and in accordance with the patient's plan of care.

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

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

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

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

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

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

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

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

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

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

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

Billing Audits/ Claims Reviews. The Medicare program and its fiscal intermediaries and other payors periodically conduct pre-payment or post-payment reviews and other reviews and audits of health care claims, including hospice claims. There is pressure from state and federal governments and other payors to scrutinize health care claims to determine their validity and appropriateness. In order to conduct these reviews, the payor requests documentation from Vitas and then reviews that documentation to determine compliance with applicable rules and regulations, including the eligibility of patients to receive hospice benefits, the appropriateness of the care provided to those patients and the documentation of that care. During the past several years, Vitas' claims have been subject to review and audit.

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

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

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

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

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

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

Overview of Government Payments — Medicare

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

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

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

General Inpatient Care. The general inpatient care rate is paid when a patient requires inpatient services for a short period for pain control or symptom management which cannot be managed in other settings. General inpatient care services must be provided in a Medicare or Medicaid certified hospital or long-term care facility or at a freestanding inpatient hospice facility with the required registered nurse staffing.

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

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

Medicare Payment for Physician Services. Payment for direct patient care physician services delivered by hospice physicians is billed separately by the hospice to the Medicare intermediary and paid at the lesser of the actual charge or the Medicare allowable charge for these services. This payment is in addition to the daily rates Vitas receives for hospice care. Payment for hospice physicians' administrative and general supervisory activities is included in the daily rates discussed above. Payments for attending physician professional services (other than services furnished by hospice physicians) are not paid to the hospice, but rather are paid directly to the attending physician by the Medicare carrier. For fiscal 2006, 1.7% of Vitas' net revenue was attributable to physician services.

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

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

Second, Medicare payments to a hospice are also subject to a separate cap based on overall average payments per admission. Any payments exceeding this overall hospice cap must be refunded by the hospice. This cap was set at $20,585 per admission through the twelve-month period ended on October 31, 2006, and is adjusted annually to account for inflation. Vitas’ hospices may be subject to future payment reductions or recoupments as the result of this cap. In 2006, we determined two of Vitas’ facilities, excluding discontinued operations, exceeded this cap for the period ended October 31, 2006.

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

Overview of Government Payments — Medicaid

Medicaid Coverage and Reimbursement. State Medicaid programs are another source of Vitas’ net patient revenue. Medicaid is a state-administered program financed by state funds and matching federal funds to provide medical assistance to the indigent and certain other eligible persons. In 1986, hospice services became an optional state Medicaid benefit. For those states that elect to provide a hospice benefit, the Medicaid program is required to pay the hospice at rates at least equal to the rates provided under Medicare and calculated using the same methodology. States maintain flexibility to establish their own hospice election procedures and to limit the number and duration of benefit periods for which they will pay for hospice services. Reimbursement from state Medicaid programs in 2006 accounted for 5.0% of Vitas’ revenues.

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

Adjustments to Medicare and Medicaid Payment Rates. Payment rates under the Medicare and Medicaid programs are adjusted annually based upon the Hospital Market Basket Index; however, the adjustments have historically been less than actual inflation. On October 1, 2004 the base rates increased by 3.3%. On October 1, 2005 the base rates increased by 3.4%. On October 1, 2006 the base rates increased by 3.4%. These base rates are further modified by the Hospice Wage Index to reflect local differences in wages according to the revised wage index. It is possible that there will be further modifications to the rate structure under which the Medicare or Medicaid programs pay for hospice care services. Any future reductions in the rate of increase in Medicare and Medicaid payments may have an adverse impact on Vitas' net patient service revenue and profitability.

Other Healthcare Regulations

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

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

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

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

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

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

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

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

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

On April 7, 2005 the Company announced the Office of Inspector General ("OIG") for the Department of Health and Human Services served Vitas with civil subpoenas relating to Vitas' alleged failure to appropriately bill Medicare and Medicaid for hospice services. As part of this investigation, the OIG selected medical records for 320 past and current patients from Vitas' three largest programs for review. It also sought policies and procedures dating back to 1998 covering admissions, certifications, recertifications, and discharges. During the third quarter of 2005 and again in May 2006, the OIG requested additional information of the Company. A qui tam complaint has been filed in U.S. District Court for the Southern District of Florida. We are conferring with the U.S. Attorney regarding the Company's defenses to the complaint allegations. The U.S. Attorney has not decided whether to intervene in the qui tam action. The Company has recorded pretax expense related to complying with OIG requests and defending the lawsuit of $250,000 and $1,068,000 for the three and twelve month periods ended December 31, 2006, respectively.

The government continues to investigate the complaint's allegations, against which Vitas is presently defending. We are unable to predict the outcome of this matter or the impact, if any, that the investigation may have on the business, results of operations, liquidity or capital resources. Regardless of outcome, responding to this matter can adversely affect the Company through defense costs, diversion of management's time and related publicity.

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

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

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

State False Claims Laws. At least 10 states and the District of Columbia, including states in which Vitas currently operates, have adopted state false claims laws that mirror to some degree the federal false claims laws. While these statutes vary in scope and effect, the penalties for violating these false claims laws include administrative, civil and/or criminal fines and penalties, imprisonment, and the imposition of multiple damages.

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

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

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

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

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

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

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

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

Health Information Practices. There currently are numerous legislative and regulatory initiatives at both the state and federal levels that address patient privacy concerns. In particular, federal regulations issued under the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") require Vitas to protect the privacy and security of patients' individual health information. HHS published final regulations addressing patient privacy on December 28, 2000, which were modified on August 14, 2002 (the "Privacy Rule"). Vitas was required to comply with the Privacy Rule by April 14, 2003, and Vitas believes that it is in material compliance. Additionally, HIPAA does not automatically preempt applicable state laws and regulations concerning Vitas' use, disclosure and maintenance of patient health information, which means that Vitas is subject to a complex regulatory scheme that, in many instances, requires Vitas to comply with both federal and state laws and regulations.

In August 2000, HHS published final regulations establishing health care transaction standards and code sets for the electronic transmission of health care information in connection with certain transactions, such as billing or health plan eligibility (the "Transactions Standard"). The official deadline for compliance with the Transactions Standard for covered entities such as Vitas was October 16, 2003. The Centers for Medicare and Medicaid Services ("CMS") is the division of HHS that is responsible for interpreting and enforcing the Transactions Standard. Failure to comply with the Transactions Standard may subject covered entities, including Vitas, to civil monetary penalties and possibly to criminal penalties. Vitas believes that it has made significant and appropriate good faith efforts to comply with the Transactions Standard and to develop an appropriate contingency plan as encouraged by CMS. It is unclear, however, how CMS will regulate providers in general or Vitas in particular with respect to compliance with the Transactions Standard. Consequently, it also is unclear whether Vitas would be found to be in material compliance with the Transactions Standard if CMS were to review Vitas' electronic claims submissions and assess Vitas' electronic transactions, or whether Vitas would be required to expend substantial sums on acquiring and implementing new information systems, or would otherwise be affected in a manner that would negatively impact its profitability.

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

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

Environmental Matters

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

At December 31, 2006, the Company's accrual for its estimated liability for potential environmental cleanup and related costs arising from the sale of DuBois Chemicals Inc. ("DuBois") amounted to $3.5 million. Of this balance, $.9 million is included in other liabilities and $2.6 million is included in other current liabilities. The Company is contingently liable for additional DuBois-related environmental cleanup and related costs up to a maximum of $14.9 million. On the basis of a continuing evaluation of the Company's potential liability, and in consultation with the Company's environmental attorney, management believes that it is not probable this additional liability will be paid. Accordingly, no provision for this contingent liability has been recorded. Although it is not presently possible to reliably project the timing of payments related to the Company's potential liability for environmental costs, management believes that any adjustments to its recorded liability will not materially adversely affect its financial position or results of operations.

The Company, to the best of its knowledge, is currently in compliance in all material respects with the environmental laws and regulations affecting its operations. Such environmental laws, regulations and enforcement proceedings have not required the Company to make material increases in or modifications to its capital expenditures and they have not had a material adverse effect on sales or net income. Capital expenditures for the purposes of complying with environmental laws and regulations during 2007 and 2008 with respect to continuing operations are not expected to be material in amount; there can be no assurance, however, that presently unforeseen legislative or enforcement actions will not require additional expenditures.

Seasonality

Advertising costs for Roto-Rooter inordinately impact the Company's fourth-quarter results. Roto-Rooter recognizes telephone directory costs immediately upon distribution of a directory by its publisher into the community. Since a large number of directories are distributed in the fourth quarter, this direct expense accounting policy results in fourth-quarter earnings including a disproportionately large share of Roto-Rooter's full-year telephone directory advertising expense. In the fourth quarter 2006, Roto-Rooter expensed $6.6 million of total advertising costs that represented 32% of the aggregate advertising costs for the full-year 2006.

Employees

On December 31, 2006, Chemed Corporation had a total of 11,621 employees.

Available Information

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

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

Item 1A. Risk Factors

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

GENERAL

We have incurred debt to finance the operations of the Company. We repaid $84.6 million of this in 2006. Our leverage may limit cash flow available for our operations, could adversely affect our ability to service our debt or obtain additional financing and could adversely affect our financial health and our ability to react to changes in our business.

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

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

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

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

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

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

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

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

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

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

- issue and sell capital stock of subsidiaries;
- sell assets;
- engage in transactions with affiliates;
- restrict distributions from subsidiaries;
- incur liens;
- engage in businesses other than permitted businesses;
- engage in sale/leaseback transactions;
- engage in mergers or consolidations;
- make capital expenditures;
- make guarantees;
- make investments and acquisitions;
- enter into operating leases;
- hedge interest rates; and
- prepay other debt.

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

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

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

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

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

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

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

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

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

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

See the "Legal Proceedings" section of this 10-K for discussion of particular matters.

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

ROTO-ROOTER

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

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

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

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

VITAS

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

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

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

Approximately one-third of Vitas' hospice patients reside in nursing homes. Changes in the laws and regulations regarding payments for hospice services and "room and board"

provided to Vitas' hospice patients residing in nursing homes could reduce its net patient service revenue and profitability.

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

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

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

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

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

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

- payment for services;
- conduct of operations, including fraud and abuse, anti-kickback prohibitions, self-referral prohibitions and false claims;
- privacy and security of medical records;
- employment practices; and
- various state approval requirements, such as facility and professional licensure, certificate of need, compliance surveys and other certification or recertification requirements.

Changes in these laws, rules and regulations or in interpretations thereof could reduce Vitas' net patient service revenue and profitability. See the "Government Regulations" section of this 10-K for a greater description of these matters.

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

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

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

Further, under separate statutes, submission of claims for items or services that are "not provided as claimed" may lead to civil money penalties, criminal fines and imprisonment and/or exclusion from participation in Medicare, Medicaid and other federally funded state health care programs. These false claims statutes include the federal False Claims Act, which allows any person to bring suit on behalf of the federal government, known as a *qui tam* action, alleging false or fraudulent Medicare or Medicaid claims or other violations of the statute and to share in any amounts paid by the entity to the government in fines or settlement. Any entity found to be violating the False Claims Act may be liable for up to $11,000 per false claim and treble the amount of damages the federal government is found to have sustained because of the false claims. See the discussion of the qui tam case pending against Vitas under Other Healthcare Regulations, above.

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

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

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

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

Continuous home care can be challenging for a hospice to provide for a number of reasons, including the need to have available sufficient skilled and trained staff to furnish such care, the need to manage the staffing and provision of such care, and a shortage of nurses that can make it particularly difficult to attract and retain nurses that are required to furnish a majority of such care. Medicare reimbursement for continuous home care has been calculated by multiplying the applicable continuous home care hourly rate by the number of hours of care provided. If the care was provided for less than one hour, Medicare regulations allowed for rounding to the next hour increment. Effective January 1, 2007, Medicare requires reporting in 15 minute increments of care provided, with no rounding.

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

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

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

There are currently numerous legislative and regulatory initiatives at both the state and federal levels that address patient privacy concerns. In particular, regulations issued under the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") require Vitas to protect the privacy and security of patients' individual health information. We cannot predict the total financial or other impact of the regulations on Vitas' operations. In addition, although Vitas ' management believes it is in compliance with the requirement of patient privacy regulations, we cannot assure you that Vitas will not be found to have violated state and federal laws, rules or guidelines surrounding patient privacy. Compliance with current and future HIPAA requirements or any other federal or state privacy initiatives could require Vitas to make substantial investments, which could negatively impact its profitability and cash flows.

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

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

- identify markets that meet its selection criteria for new hospice locations;
- hire and retain qualified management teams to operate each of its new hospice locations;
- manage a large and geographically diverse group of hospice locations;
- become Medicare and Medicaid certified in new markets;
- generate sufficient hospice admissions in new markets to operate profitably in these new markets;
- compete effectively with existing hospices in new markets; or
- obtain state licensure and/or a certificate of need from appropriate state agencies in new markets.

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

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

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

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

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

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

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

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

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

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

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

- community-based hospice providers;
- national and regional companies;
- hospital-based hospice and palliative care programs;
- physician groups;
- nursing homes;
- home health agencies;
- infusion therapy companies; and
- nursing agencies

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company's corporate offices and the headquarters for the Roto-Rooter Group are located in Cincinnati, Ohio. Roto-Rooter has manufacturing and distribution center facilities in West Des Moines, Iowa and has 68 office and service facilities in 27 states. Vitas, headquartered in Miami, operates 41 programs from 75 leased facilities in 15 states and the District of Columbia.

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

Item 3. Legal Proceedings

The Company is party to a class action lawsuit filed in the Third Judicial Circuit Court of Madison County, Illinois in June of 2000 by Robert Harris, alleging certain Roto-Rooter plumbing was performed by unlicensed employees. The Company contested these allegations and believe them without merit. Plaintiff moved for certification of a class of customers in 32 states who allegedly paid for plumbing work performed by unlicensed employees. Plaintiff also moved for partial summary judgment on grounds the licensed apprentice plumber who installed his faucet did not work under the direct personal supervision of a licensed master plumber. On June 19, 2002, the trial judge certified an Illinois-only plaintiffs class and granted summary judgment for the named party Plaintiff on the issue of liability, finding violation of the Illinois Plumbing License Act and the Illinois Consumer Fraud Act, through Roto-Rooter's representation of the licensed apprentice as a plumber. The court did not rule on certification of a class in the remaining 31 states. In December 2004, the Company reached a resolution of this matter with the plaintiff. The court approved this settlement in July 2006. We accrued $3.1 million in 2004 as the anticipated cost of settling this litigation.

Like other large California employers, Vitas faces allegations of purported class-wide wage and hour violations. Vitas Healthcare Corporation was party to a class action lawsuit filed in the Superior Court of California, Los Angeles County, in April of 2004 by Ann Marie Costa, Ana Jimenez, Mariea Ruteaya and Gracetta Wilson ("Costa"). It alleged failure to pay overtime wages for hours worked "off the clock" on administrative tasks, including voicemail retrieval, time entry, travel to and from work, and pager response. It also alleged Vitas failed to provide meal and break periods to a purported class of California nurses, home health aides and licensed clinical social workers. The case also sought payment of penalties, interest, and plaintiff's attorney fees. The Company contested these allegations. Plaintiffs moved for class certification, and Vitas opposed this motion. We reached an agreement with the Plaintiff class in order to avoid the uncertainty of litigation and the diversion of resources and personnel resulting from it, to resolve this matter for $19 million, inclusive of Plaintiffs' class attorneys' fees and the costs of settlement administration. On June 26, 2006 the court granted final approval of this settlement.

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 ("Santos"). This case, filed by the Costa case plaintiffs' counsel, makes similar allegations of 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 likewise seeks payment of penalties, interest and plaintiffs' attorney fees. Vitas contests these allegations. The lawsuit is in its early stage and we are unable to estimate our potential liability, if any, with respect to these allegations.

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

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

Item 4. Submission of Matters to a Vote of Security Holders

None.

Executive Officers of the Company

Name	Age	Office	First Elected
Kevin J. McNamara	53	President and Chief Executive Officer	August 2, 1994(1)
Timothy S. O'Toole	51	Executive Vice President	May 18, 1992(2)
Spencer S. Lee	51	Executive Vice President	May 15, 2000(3)
David P. Williams	46	Vice President and Chief Financial Officer	March 5, 2004(4)
Arthur V. Tucker, Jr.	57	Vice President and Controller	February 1, 1989(5)

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

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

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

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

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

Each executive officer holds office until the annual election at the next annual organizational meeting of the Board of Directors of the Company which is scheduled to be held on May 21, 2007.

PART II

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

The Company's Capital Stock (par value $1 per share) is traded on the New York Stock Exchange under the symbol CHE. The range of the high and low sale prices on the New York Stock Exchange and dividends paid per share for each quarter of 2005 and 2006 adjusted for a 2-for-1 stock split occurring May 11, 2005, are set forth below.

	Closing High	Closing Low	Dividends Paid Per Share
2005			
First Quarter	$ 38.63	$ 32.55	$ .06
Second Quarter	43.83	34.57	.06
Third Quarter	44.90	39.32	.06
Fourth Quarter	54.00	40.13	.06
2006			
First Quarter	$ 59.67	$ 49.50	$ .06
Second Quarter	61.28	50.29	.06
Third Quarter	54.65	32.26	.06
Fourth Quarter	38.64	29.99	.06

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

As of February 15, 2007, there were approximately 2,977 stockholders of record of the Company's Capital Stock. This number only includes stockholders of record and does not include stockholders with shares beneficially held in nominee name or within clearinghouse positions of brokers, banks or other institutions.

During 2006, the number of shares of Capital Stock repurchased by the Company, the weighted average price paid for each share, the cumulative shares repurchased under each program and the dollar amounts remaining under each program were as follows:

Company Purchase of Shares of Capital Stock

	Total Number of Shares Repurchased	Weighted Average Price Paid Per Share	Cumulative Shares Repurchased Under the Program	Dollar Amount Remaining Under The Program
February 2000 Program (a)				
July 1 through July 31, 2006	—	$ —	42,349	$ 8,498,717
August 1 through August 31, 2006	111,380	$ 37.30	153,729	$ 4,344,488
September 1 through September 30, 2006	—	$ —	153,729	$ 4,344,488
Third Quarter Total — February 2000 Program	111,380	$ 37.30		
October 1 through October 31, 2006	85,800	$ 32.76	239,529	$ 1,533,861
November 1 through November 30, 2006	25,400	$ 35.02	264,929	$ 644,237
December 1 through December 31, 2006	17,602	$ 36.60	282,531	$ —
Fourth Quarter Total — February 2000 Program	128,802	$ 33.73		

(a) No shares had been purchased under the February 2000 program since June 2001. $10 million was originally authorized under this program with no expiration date.

July 2006 Program (b)				
October 1 through October 31, 2006	—	$ —	—	$ 50,000,000
November 1 through November 30, 2006	—	$ —	—	$ 50,000,000
December 1 through December 31, 2006	193,398	$ 36.77	193,398	$42,886,358
Fourth Quarter Total — February 2000 Program	193,398	$ 36.77		

(b) No shares repurchased prior to the fourth quarter of 2006. $42.9 million remains authorized under this program with no expiration date.

As of December 31, 2006, the number of stock options outstanding under the Company's equity compensation plans, the weighted average exercise price of outstanding options, and the number of securities remaining available for issuance were as follows:

EQUITY COMPENSATION PLAN INFORMATION

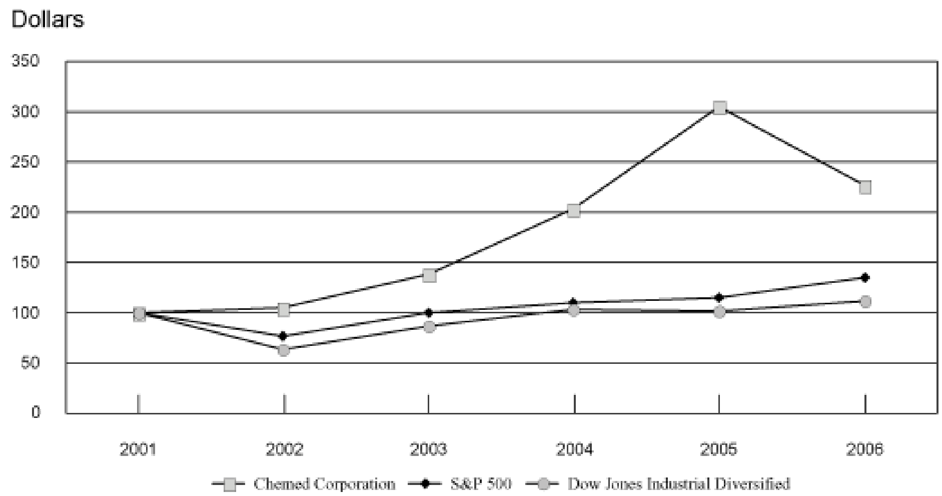
Plan Category	Number of Securities to be issued upon exercise of outstanding warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans [excluding securities reflected in column (a)] (c)
Equity Compensation plans approved by stockholders	1,611,612	$ 30.81	2,742,634
Equity Compensation plans not approved by stockholders (1)	48,910	21.23	1,588
TOTAL	1,660,522	$ 30.53	2,744,222

(1) In May 1999 the Board of Directors adopted the 1999 Long-Term Employee Incentive Plan without stockholder approval. This plan permits the Company to grant up to 500,000 shares of non-qualified options and stock awards to a broad base of salaried and hourly employees (excluding officers and directors) of the Company. Except for the exclusion of officers and directors, this plan has the same general terms and provisions as the 2004 Stock Incentive Plan. In addition, pursuant to this plan no individual may be granted more than 50,000 stock options in a calendar year, the aggregate number of the shares of Capital Stock which may be issued pursuant to stock incentives in the form of Stock Awards shall not be more than 270,000, and no stock incentives shall be granted under the plan after May 17, 2009.

Comparative Stock Performance

The graph below compares the yearly percentage change in the Company's cumulative total stockholder return on Capital Stock (as measured by dividing (i) the sum of (A) the cumulative amount of dividends for the period December 31, 2001, to December 31, 2006, assuming dividend reinvestment, and (B) the difference between the Company's share price at December 31, 2001 and December 31, 2006; by (ii) the share price at December

31, 2001) with the cumulative total return, assuming reinvestment of dividends, of the (1) S&P 500 Stock Index and (2) Dow Jones Industrial Diversified Index.



December 31	2001	2002	2003	2004	2005	2006
Chemed Corporation	100.0	105.58	139.50	204.87	305.07	228.30
S&P500	100.0	77.90	100.25	111.15	116.60	135.03
Dow Jones Industrial Diversified	100.0	64.93	87.84	104.69	101.95	111.68

Item 6. Selected Financial Data

The information called for by this Item for the five years ended December 31, 2006 is set forth on page 34 of the 2006 Annual Report to Stockholders and is incorporated herein by reference.

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

The information called for by this Item is set forth on pages 35 through 47 of the 2006 Annual Report to Stockholders and is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company's primary market risk exposure relates to interest rate risk exposure through its variable interest line of credit. At December 31, 2006 the Company had no variable rate debt outstanding. For each $10 million dollars borrowed under this line of credit, an increase or decrease of 100 basis points (1% point), increases or decreases the Company's annual interest expense by $100,000.

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

The market value of the Company's long-term debt at December 31, 2006 is approximately $155.0 million versus a carrying value of $150.5 million.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 28, 2007, appearing on pages 1 through 31 of the 2006 Annual Report to Stockholders, along with the Supplementary Data (Unaudited Summary of Quarterly Results) appearing on pages 32-33, are incorporated herein by reference.

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

None.

Item 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Refer to Management's Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm on pages 1 and 2 of the Company's 2006 Annual Report to Stockholders, which are incorporated herein by reference.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have not been any changes in the Company's internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act during the Company's fiscal quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

Item 9B.Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The directors of the Company are:

Edward L. Hutton
Kevin J. McNamara
Donald Breen, Jr.
Charles H. Erhart, Jr.
Joel F. Gemunder
Patrick P. Grace
Thomas C. Hutton
Walter L. Krebs
Sandra E. Laney
Timothy S. O'Toole
Donald E. Saunders
George J. Walsh III
Frank E. Wood

The additional information required under this Item is set forth in the Company's 2007 Proxy Statement and in Part I hereof under the caption "Executive Officers of the Registrant" and is incorporated herein by reference.

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

Item 11. Executive Compensation

Information required under this Item is set forth in the Company's 2007 Proxy Statement, which is incorporated herein by reference.

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

Information required under this Item is set forth in the Company's 2007 Proxy Statement, which is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information required under this Item is set forth in the Company's 2007 Proxy Statement, which is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Audit Fees

PricewaterhouseCoopers LLP billed the company $1,560,000 in 2005 and $1,600,000 in 2006. These fees were for professional services rendered for the integrated audit of the Company's annual financial statements and of its internal control over financial reporting, review of the financial statements included in the Company's Forms 10-Q and review of documents filed with the SEC.

Audit-Related Fees

PricewaterhouseCoopers LLP billed the company $189,000 and $107,000 in 2005 and 2006, respectively, for audit-related services. In 2005, $75,000 was related to the audit of the employee benefit plans and $114,000 was related to audits of Vitas' Florida subsidiaries. In 2006, $11,000 was related to the issuance of a preferability letter, $11,000 was related to a proposed offering of debt and $85,000 was related to the audit of one of Vitas' Florida subsidiaries.

Tax Fees

No such services were rendered in 2005 or 2006.

All Other Fees

PricewaterhouseCoopers LLP billed the Company $2,300 in 2005 and 2006 in aggregate fees for services rendered by PricewaterhouseCoopers LLP, other than the services described above.

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

PART IV

Item 15. Exhibits and Financial Statement Schedules

Exhibits

3.1	Certificate of Incorporation of Chemed Corporation.*
3.2	Certificate of Amendment to Certificate of Incorporation.*
3.3	By-Laws of Chemed Corporation.*
4.1	Indenture, dated as of February 24, 2004, between Roto-Rooter, Inc. and LaSalle Bank National Association.*
10.1	Agreement and Plan of Merger among Diversey U.S. Holdings, Inc., D. C. Acquisition Inc., Chemed Corporation and DuBois Chemicals, Inc., dated as of February 25, 1991.*
10.2	Agreement and Plan of Merger among National Sanitary Supply Company, Unisource Worldwide, Inc. and TFBD, Inc. dated as of August 11, 1997.*
10.3	Stock Purchase Agreement dated as of May 8, 2002 by and between PCI Holding Corp. and Chemed Corporation. *
10.4	Amendment No. 1 to Stock Purchase Agreement dated as of October 11, 2002 by and among PCI Holding Corp., PCI-A Holding Corp. and Chemed Corporation. *
10.5	Senior Subordinated Promissory Note dated as of October 11, 2002 by and among PCI Holding Corp. and Chemed Corporation. *
10.6	Common Stock Purchase Warrant dated as of October 11, 2002 by and between PCI Holding Corp. and Chemed Corporation. *
10.7	1997 Stock Incentive Plan.*,**
10.8	1999 Stock Incentive Plan.*,**
10.9	1999 Long-Term Employee Incentive Plan as amended through May 20, 2002.*,**
10.10	2002 Stock Incentive Plan.*,**
10.11	2002 Executive Long-Term Incentive Plan, as amended May 18, 2004.*,**
10.12	2004 Stock Incentive Plan.*,**
10.13	2006 Stock Incentive Plan, as amended August 11, 2006.*,**
10.14	Employment Contracts with Executives.*,**
10.15	Amendment to Employment Agreements with Kevin J. McNamara, Thomas C. Hutton and Sandra E. Laney dated August 7, 2002.*,**
10.16	Amendment to Employment Agreements with Timothy S. O'Toole and Arthur V. Tucker dated August 7, 2002.*,**
10.17	Amendment to Employment Agreement with Spencer S. Lee dated May 19, 2003.*,**
10.18	Amendment to Employment Agreements with Executives dated January 1, 2002.*,**
10.19	Amendment No. 16 to Employment Agreement with Sandra E. Laney dated March 1, 2003.*,**
10.20	Amendment No. 16 to Employment Agreement with Kevin J. McNamara dated May 18, 2004.*,**

10.21 Employment Agreement with David P. Williams dated December 1, 2006.*,**

10.22 Excess Benefits Plan, as restated and amended, effective June 1, 2001.*,**

10.23 Amendment No. 1 to Excess Benefits Plan, effective July 1, 2002.*,**

10.24 Amendment No. 2 to Excess Benefits Plan, effective November 7, 2003.*,**

10.25 Non-Employee Directors' Deferred Compensation Plan.*,**

10.26 Chemed/Roto-Rooter Savings & Retirement Plan, effective January 1, 1999.*,**

10.27 First Amendment to Chemed/Roto-Rooter Savings & Retirement Plan, effective September 6, 2000.*,**

10.28 Second Amendment to Chemed/Roto-Rooter Savings & Retirement Plan, effective January 1, 2001.*,**

10.29 Third Amendment to Chemed/Roto-Rooter Savings & Retirement Plan, effective December 12, 2001.*,**

10.30 Directors Emeriti Plan.*,**

10.31 Split Dollar Agreement with Edward L. Hutton.*,**

10.32 Change in Control Severance Plan. *,**

10.33 Senior Executive Severance Policy. *,**

10.34 Roto-Rooter Deferred Compensation Plan No. 1, as amended January 1, 1998.*,**

10.35 Roto-Rooter Deferred Compensation Plan No. 2.*,**

10.36 Agreement and Plan of Merger, dated as of December 18, 2003, Among Roto-Rooter, Inc., Marlin Merger Corp. and Vitas Healthcare Corporation.*

10.37 Credit Agreement, dated as of February 24, 2004, among Roto-Rooter, Inc., the lenders from time to time parties thereto and Bank One, NA, as Administrative Agent.*

10.38 Amended and Restated Credit Agreement, dated as of February 24, 2005, among Chemed Corporation, the lenders from time to time parties thereto and JP Morgan Chase Bank, NA, as Administrative Agent.*

10.39 Amendment No.1 to Amended and Restated Credit Agreement, dated March 31, 2006, among Chemed Corporation, the lenders from time to time parties thereto, and JP Morgan Chase Bank NA, as Administrative Agent.*

10.40 Pledge and Security Agreement, dated as of February 24, 2004, among Roto-Rooter, Inc., the subsidiaries of Roto-Rooter, Inc. listed on the signature pages thereto and Bank One, NA, as Collateral Agent.*

10.41 Guaranty Agreement, dated as of February 24, 2004, among the subsidiaries of Roto-Rooter, Inc. listed on the signature pages thereto and Bank One, NA, as Administrative Agent.*

10.42 Collateral Sharing Agreement, dated as of February 24, 2004, among Bank One, NA, as Collateral Agent and Administrative Agent, Wells Fargo Bank, NA, as Trustee, and Roto-Rooter, Inc.*

10.43 Form of Restricted Stock Award.*,** 10.44 Form of Stock Option Grant.*,**

10.45 Assets Purchase Agreement of April 1, 2005 between Service America Network, Inc. and Service America Enterprise, Inc.*

12 Computation of Ratio of Earnings to Fixed Charges.

13 2006 Annual Report to Stockholders.

14 Policies on Business Ethics of Chemed Corporation.*

18 PricewaterhouseCoopers LLP preferability letter concerning change in accounting principle.*

21 Subsidiaries of Chemed Corporation.

23 Consent of Independent Registered Public Accounting Firm.

24 Powers of Attorney.

31.1 Certification by Kevin J. McNamara pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934.

31.2 Certification by David P. Williams pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934.

31.3 Certification by Arthur V. Tucker, Jr. pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934.

32.1 Certification by Kevin J. McNamara pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification by David P. Williams pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.3 Certification by Arthur V. Tucker, Jr. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

---

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

** Management contract or compensatory plan or arrangement.

Financial Statement Schedule

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

Table of Contents

SIGNATURES

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

CHEMED CORPORATION

February 28, 2007

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

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

Signature	Title	Date
/s/ Kevin J. McNamara Kevin J. McNamara	President and Chief Executive Officer and a Director (Principal Executive Officer)	
/s/ David P. Williams David P. Williams	Vice President and Chief Financial Officer (Principal Financial Officer)	
/s/ Arthur V. Tucker, Jr. Arthur V. Tucker, Jr.	Vice President and Controller (Principal Accounting Officer)	February 28, 2007

Edward L. Hutton*	Walter L. Krebs*	
Donald Breen, Jr.*	Sandra E. Laney*	—Directors
Charles H. Erhart, Jr.*	Timothy S. O'Toole*	
Joel F. Gemunder*	Donald E. Saunders*	
Patrick P. Grace*	George J. Walsh III*	
Thomas C. Hutton*	Frank E. Wood*	

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

February 28, 2007	/s/ Naomi C. Dallob
Date	Naomi C. Dallob (Attorney-in-Fact)

CHEMED CORPORATION AND SUBSIDIARY COMPANIES

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

2004, 2005 AND 2006

* Indicates page numbers in Chemed Corporation 2006 Annual Report to Stockholders

The consolidated financial statements of Chemed Corporation listed above, appearing in the 2006 Annual Report to Stockholders, are incorporated herein by reference. The Financial Statement Schedule should be read in conjunction with the consolidated financial statements listed above. Schedules not included have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto as listed above.

Report of Independent Registered Public Accounting
Firm on Financial Statement Schedule

To the Board of Directors

of Chemed Corporation

Our audits of the consolidated financial statements, of management's assessment of the effectiveness of internal control over financial reporting and of the effectiveness of internal control over financial reporting referred to in our report dated February 28, 2007 appearing in the 2006 Annual Report to Stockholders of Chemed Corporation (which report, consolidated financial statements and assessment are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Cincinnati, Ohio
February 28, 2007

Table of Contents

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

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS (CHARGED) CREDITED TO COSTS AND EXPENSES	ADDITIONS (CHARGED) CREDITED TO OTHER ACCOUNTS	APPLICABLE TO COMPANIES ACQUIRED IN PERIOD	DEDUCTIONS (b)	BALANCE AT END OF PERIOD
Allowances for doubtful accounts (c)						
For the year 2006	$ (8,311)	$ (8,169)	$ 170	$ —	$ 6,130	$ (10,180)
For the year 2005 (a)	$ (7,539)	$ (7,126)	$ —	$ —	$ 6,354	$ (8,311)
For the year 2004 (a)	$ (2,646)	$ (5,978)	$ —	$ (4,946)	$ 6,031	$ (7,539)
Allowances for doubtful accounts — notes receivable (d)						
For the year 2006	$ —	$ —	$ (170)	$ —	$ —	$ (170)
For the year 2005	$ —	$ —	$ —	$ —	$ —	$ —
For the year 2004	$ (323)	$ 323	$ —	$ —	$ —	$ —

(a) Amounts were reclassified for operations discontinued in 2004 and 2006.

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

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

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

Table of Contents

INDEX TO EXHIBITS

Exhibit Number		Page Number or Incorporation by Reference: File No. and Filing Date	Page Number or Incorporation by Reference: Previous Exhibit No.
3.1	Certificate of Incorporation of Chemed Corporation	Form S-3 Reg. No. 33-44177 11/26/91	4.1
3.2	Certificate of Amendment to Certificate of Incorporation	Form 8-K 5/16/06	3.1
3.3	By-Laws of Chemed Corporation as amended November 5, 2004	Form 8-K 11/5/04	1
4.1	Indenture, dated as of February 24, 2004 between Roto-Rooter, Inc. and LaSalle Bank National Association	Form 10-K 3/12/04	4.4
10.1	Agreement and Plan of Merger among Diversey U.S. Holdings, Inc., D.C. Acquisition Inc., Chemed Corporation and DuBois Chemicals, Inc., dated as of February 25, 1991	Form 8-K 3/11/91	1
10.2	Agreement and Plan of Merger among National Sanitary Supply Company, Unisource Worldwide, Inc. and TFBD, Inc.	Form 8-K 10/13/97	1
10.3	Stock Purchase Agreement dated as of May 8, 2002 by and between PCI Holding Corp. and Chemed Corporation	Form 8-K 10/11/02	2.1
10.4	Amendment No. 1 to Stock Purchase Agreement dated as of October 11, 2002 by and among PCI Holding Corp., PCI-A Holding Corp. and Chemed Corporation	Form 8-K 10/11/02	2.2
10.5	Senior Subordinated Promissory Note dated as of October 11, 2002 by and among PCI Holding Corp. and Chemed Corporation	Form 8-K 10/11/02	2.3

Exhibit Number		Page Number or Incorporation by Reference: File No. and Filing Date	Previous Exhibit No.
10.6	Common Stock Purchase Warrant dated as of October 11, 2002 by and between PCI Holding Corp. and Chemed Corporation	Form 8-K 10/11/02	2.4
10.7	1997 Stock Incentive Plan	Form 10-K 3/27/98, **	10.10
10.8	1999 Stock Incentive Plan	Form 10-K 3/29/00, **	10.11
10.9	1999 Long Term Employee Incentive Plan as amended through May 20, 2002	Form 10-K 3/28/03, **	10.16
10.10	2002 Stock Incentive Plan	Form 10-K 3/28/03, **	10.17
10.11	2002 Executive Long-Term Incentive Plan, as amended May 18, 2004	Form 10-Q 8/19/04, **	10.16
10.12	2004 Stock Incentive Plan	Proxy Statement 3/25/04, **	A
10.13	2006 Stock Incentive Plan, as amended August 11, 2006	Form 10-Q 8/14/06, **	10.1
10.14	Employment Contracts with Executives	Form 10-K 3/28/89, **	10.12
10.15	Amendment to Employment Agreements with Kevin J. McNamara, Thomas C. Hutton and Sandra E. Laney dated August 7, 2002	Form 10-K 3/28/03, **	10.20
10.16	Amendment to Employment Agreements with Timothy S. O'Toole and Arthur V. Tucker dated August 7, 2002	Form 10-K 3/28/03, **	10.21
10.17	Amendment to Employment Agreement with Spencer S. Lee dated May 19, 2003	Form 10-K 3/12/04, **	10.20

Exhibit Number		Page Number or Incorporation by Reference — File No. and Filing Date	Previous Exhibit No.
10.18	Amendment to Employment Agreement with Executives dated January 1, 2002	Form 10-K 3/28/02, **	10.16
10.19	Amendment No. 16 to Employment Agreement with Sandra E. Laney dated March 1, 2003	Form 10-K 3/28/03, **	10.27
10.20	Amendment No. 16 to Employment Agreement with Kevin J. McNamara dated May 18, 2004.	Form 10-K 3/28/05, **	10.25
10.21	Employment Agreement with David P. Williams dated December 1, 2006.	Form 8-K 12/1/06, **	10.01
10.22	Excess Benefits Plan, as restated and amended, effective June 1, 2001	Form 10-K 3/12/04, **	10.24
10.23	Amendment No. 1 to Excess Benefits Plan, effective July 1, 2002	Form 10-K 3/12/04, **	10.25
10.24	Amendment No. 2 to Excess Benefits Plan, effective November 7, 2003	Form 10-K 3/12/04, **	10.26
10.25	Non-Employee Directors' Deferred Compensation Plan	Form 10-K 3/24/88, **	10.10
10.26	Chemed/Roto-Rooter Savings & Retirement Plan, effective January 1, 1999	Form 10-K 3/25/99, **	10.25
10.27	First Amendment to Chemed/ Roto-Rooter Savings & Retirement Plan effective September 6, 2000	Form 10-K 3/28/02, **	10.22
10.28	Second Amendment to Chemed/ Roto-Rooter Savings & Retirement Plan effective January 1, 2001	Form 10-K 3/28/02, **	10.23
10.29	Third Amendment to Chemed/ Roto-Rooter Savings & Retirement Plan effective December 12, 2001	Form 10-K 3/28/02, **	10.24

Exhibit Number		Page Number or Incorporation by Reference: File No. and Filing Date	Page Number or Incorporation by Reference: Previous Exhibit No.
10.30	Directors Emeriti Plan	Form 10-Q 5/12/88, **	10.11
10.31	Split Dollar Agreement with Edward L. Hutton	Form 10-K 3/28/96, **	10.16
10.32	Change in Control Severance Plan	Form 8-K 12/1/06, **	10.02
10.33	Senior Executive Severance Policy	Form 8-K 12/1/06, **	10.03
10.34	Roto-Rooter Deferred Compensation Plan No. 1, as amended January 1, 1998	Form 10-K 3/28/01, **	10.37
10.35	Roto-Rooter Deferred Compensation Plan No. 2	Form 10-K 3/28/01, **	10.38
10.36	Agreement and Plan of Merger, dated as of December 18, 2003, among Roto-Rooter, Inc., Marlin Merger Corp. and Vitas Healthcare Corporation	Form 8-K 12/19/03	99.2
10.37	Credit Agreement, dated as of February 24, 2004, among Roto-Rooter, Inc., the lenders from time to time parties thereto and Bank One, NA, as Administrative Agent.	Form 10-K 3/12/04	10.46
10.38	Amended and Restated Credit Agreement dated as of February 24, 2005 among Chemed Corporation, the lenders from time to time, parties thereto and JP Morgan Chase Bank NA, as Administrative Agent.	Form 10-K 3/28/05	10.46

Exhibit Number		Page Number or Incorporation by Reference	
		File No. and Filing Date	Previous Exhibit No.
10.39	Amendment No. 1 to Amended and Restated Credit Agreement, dated March 31, 2006 among Chemed Corporation, the lenders from Time to time parties thereto, and JP Morgan Chase Bank NA, as Administrative Agent.	Form 10-Q 4/4/06	10.1
10.40	Pledge and Security Agreement, dated as of February 24, 2004, among Roto-Rooter, Inc., the subsidiaries of Roto-Rooter, Inc. listed on the signature pages thereto and Bank One, NA, as Collateral Agent.	Form 10-K 3/12/04	10.47
10.41	Guaranty Agreement, dated as of February 24, 2004, among the subsidiaries of Roto-Rooter, Inc. listed on the signature pages thereto and Bank One, NA, as Administrative Agent.	Form 10-K 3/12/04	10.48
10.42	Collateral Sharing Agreement, dated as of February 24, 2004 among Bank One, NA, as Collateral Agent and Administrative Agent, Wells Fargo Bank, NA as Trustee, and Roto-Rooter, Inc.	Form S-2 Reg. No. 333-115668 5/20/04	10.49
10.43	Form of Restricted Stock Award	Form 10-K 3/28/05, **	10.50
10.44	Form of Stock Option Grant	Form 10-K 3/28/05, **	10.51
10.45	Assets Purchase Agreement of April 1, 2005 between Service America Network, Inc. and Service America Enterprise, Inc.	Form 8-K 4/7/05	10.1
12	Computation of Ratio of Earnings to Fixed Charges	*	
13	2006 Annual Report to Stockholders	*	

Exhibit Number		Page Number or Incorporation by Reference — File No. and Filing Date	Previous Exhibit No.
14	Policies on Business Ethics of Chemed Corporation	Form 10-K 3/12/04	14
18	PricewaterhouseCoopers LLP preferability letter concerning change in accounting principle.	Form 10-Q 11/1/06	18.1
21	Subsidiaries of Chemed Corporation	*	
23	Consent of Independent Registered Public Accounting Firm	*	
24	Powers of Attorney	*, ***	
31.1	Certification by Kevin J. McNamara pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934.	*	
31.2	Certification by David P. Williams pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934.	*	
31.3	Certification by Arthur V. Tucker, Jr. pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934.	*	
32.1	Certification by Kevin J. McNamara pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*	
32.2	Certification by David P. Williams pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*	
32.3	Certification by Arthur V. Tucker, Jr. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*	

* Filed herewith.

** Management contract or compensatory plan or arrangement.

*** Not included within this conformed copy.

EXHIBIT 12

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

	2002	2003	2004	2005	2006
Pretax income/ (loss) from continuing operations before equity in earnings/ (loss) of affiliate	$ 17,140	$ 16,446	$ 36,936	$ 54,656	$ 90,284
Additions:					
Fixed charges	5,621	4,800	28,597	30,738	24,055
Amortization of capitalized interest	—	—	1	2	4
Deductions:					
Capitalized interest	—	—	(72)	(380)	(751)
Adjusted income/ (loss)	$ 22,761	$ 21,246	$ 65,462	$ 85,016	$ 113,592
Fixed Charges:					
Interest expense	$ 4,007	$ 3,211	$ 21,167	$ 21,264	$ 17,468
Capitalized interest	—	—	72	380	751
Interest component of rental expense	1,614	1,589	4,028	5,123	5,406
Loss on extinguishment of debt (a), (b), (c)	—	—	3,330	3,971	430
Fixed charges	$ 5,621	$ 4,800	$ 28,597	$ 30,738	$ 24,055
Ratio of earnings to fixed charges (d)	4.0 x	4.4 x	2.3 x	2.8 x	4.7 x
Additional earnings needed to achieve 1:1 ratio coverage	n.a.	n.a.	n.a.	n.a.	n.a.

(a) The year ended December 31, 2004 includes interest penalties related to the retirement of the Company's 7.31% senior notes due 2005 through 2009. Refer to Note 13 in the Notes to Consolidated Financial Statements for further discussion.

(b) The year ended December 31, 2005 includes interest penalties related to the retirement of the Company's floating rate notes due 2010. Refer to Note 13 in the Notes to Consolidated Financial Statements for further discussion.

(c) The year ended December 31, 2006 includes interest penalties related to the retirement of the Company's $84.4 million term loan due 2009 . Refer to Note 13 in the Notes to Consolidated Financial Statements for further discussion.

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

Financial Review

Contents

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

The Company's management, including the President and Chief Executive Officer, 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, 2006 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, 2006 based on criteria in *Internal Control—Integrated Framework* issued by COSO. Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm.

PRICEWATERHOUSECOOPERS

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Chemed Corporation:

We have completed integrated audits of Chemed Corporation's consolidated financial statements and of its internal control over financial reporting as of December 31, 2006 in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheet and the related consolidated statement of income, cash flows, and changes in stockholders' equity present fairly, in all material respects, the financial position of Chemed Corporation and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2006 the Company changed its method of accounting for share-based compensation.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing on page 1, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control — Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP
Cincinnati, Ohio
February 28, 2007

CONSOLIDATED STATEMENT OF INCOME

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

For the Years Ended December 31,	2006	2005	2004
Continuing Operations			
Service revenues and sales	**$ 1,018,587**	$ 915,970	$ 734,877
Cost of services provided and goods sold (excluding depreciation)	**730,123**	644,476	506,770
Selling, general and administrative expenses	**161,183**	157,262	147,064
Depreciation	**16,775**	16,150	14,542
Amortization	**5,255**	4,922	3,779
Other expenses (Note 6)	**272**	16,391	4,768
Total costs and expenses	**913,608**	839,201	676,923
Income from operations	**104,979**	76,769	57,954
Interest expense	**(17,468)**	(21,264)	(21,158)
Loss from impairment of investment (Note 7)	**(1,445)**	—	—
Loss on extinguishment of debt (Note 13)	**(430)**	(3,971)	(3,330)
Other income—net (Note 9)	**4,648**	3,122	3,470
Income before income taxes	**90,284**	54,656	36,936
Income taxes (Note 10)	**(32,562)**	(18,428)	(13,736)
Equity in loss of affiliate (Note 4)	**—**	—	(4,105)
Income from continuing operations	**57,722**	36,228	19,095
Discontinued Operations, Net of Income Taxes (Note 7)	**(7,071)**	(411)	8,417
Net Income	**$ 50,651**	$ 35,817	$ 27,512
Earnings Per Share (Note 18)			
Income from continuing operations	**$ 2.21**	$ 1.42	$ 0.79
Net Income	**$ 1.94**	$ 1.40	$ 1.14
Diluted Earnings Per Share (Note 18)			
Income from continuing operations	**$ 2.16**	$ 1.38	$ 0.78
Net Income	**$ 1.90**	$ 1.36	$ 1.12
Average Number of Shares Outstanding (Note 18)			
Earnings per share	**26,118**	25,552	24,120
Diluted earnings per share	**26,669**	26,299	24,636

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

CONSOLIDATED BALANCE SHEET

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

December 31,	2006	2005
Assets		
Current assets		
Cash and cash equivalents (Note 11)	**$ 29,274**	$ 57,133
Accounts receivable less allowances of $10,180 (2005 - $8,311)	**93,086**	91,094
Inventories	**6,578**	6,499
Prepaid income taxes (Note 10)	**—**	8,151
Current deferred income taxes (Note 10)	**17,789**	26,727
Current assets of discontinued operations (Note 7)	**5,418**	5,189
Prepaid expenses and other current assets	**9,968**	9,767
Total current assets	**162,113**	204,560
Investments of deferred compensation plans held in trust (Note 15)	**25,713**	21,105
Other investments (Notes 7 and 17)	**—**	1,445
Note receivable (Notes 7 and 17)	**14,701**	12,500
Properties and equipment, at cost, less accumulated depreciation (Note 12)	**70,140**	65,155
Identifiable intangible assets less accumulated amortization of $13,201 (2005 - $9,212) (Note 5)	**69,215**	72,888
Goodwill (Note 5)	**435,050**	432,596
Noncurrent assets of discontinued operations (Note 7)	**287**	7,632
Other assets	**16,068**	21,222
Total Assets	**$ 793,287**	$ 839,103
Liabilities		
Current liabilities		
Accounts payable	**$ 49,744**	$ 43,437
Current portion of long-term debt (Note 13)	**209**	1,045
Income taxes (Note 10)	**6,765**	4,189
Accrued insurance	**38,457**	38,409
Accrued salaries and wages	**35,990**	32,963
Current liabilities of discontinued operations (Note 7)	**12,215**	3,339
Other current liabilities (Note 14)	**22,684**	45,823
Total current liabilities	**166,064**	169,205
Deferred income taxes (Note 10)	**26,301**	26,012
Long-term debt (Note 13)	**150,331**	234,058
Deferred compensation liabilities (Note 15)	**25,514**	21,275
Noncurrent liabilities of discontinued operations (Note 7)	**—**	4
Other liabilities	**3,716**	4,374
Commitments and contingencies (Notes 16, 20 and 21)		
Total Liabilities	**371,926**	454,928
Stockholders' Equity		
Capital stock — authorized 80,000,000 shares $1 par; issued 28,849,918 shares (2005 — 28,373,872 shares)	**28,850**	28,374
Paid-in capital	**252,639**	234,910
Retained earnings	**215,517**	171,188
Treasury stock — 3,023,635 shares (2005 — 2,394,272 shares), at cost	**(78,064)**	(52,127)
Deferred compensation payable in Company stock (Note 15)	**2,419**	2,379
Notes receivable for shares sold	**—**	(549)
Total Stockholders' Equity	**421,361**	384,175
Total Liabilities and Stockholders' Equity	**$ 793,287**	$ 839,103

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Chemed Corporation and Subsidiary Companies
(in thousands)

For the Years Ended December 31,	**2006**	2005	2004
Cash Flows from Operating Activities			
Net income	**$ 50,651**	$ 35,817	$ 27,512
Adjustments to reconcile net income/(loss) to net cash provided by operations:			
Depreciation and amortization	**22,030**	21,072	18,321
Provision for uncollectible accounts receivable	**8,169**	7,126	6,150
Provision for deferred income taxes (Note 10)	**7,408**	(5,055)	4,969
Discontinued operations (Note 7)	**7,071**	411	(8,417)
Amortization of debt issuance costs	**1,774**	1,834	1,861
Noncash portion of long-term incentive compensation	**—**	4,813	4,988
Loss on impairment of investment	**1,445**	—	—
Write-off unamortized debt issuance costs	**430**	2,871	—
Equity in loss of affiliate (Note 4)	**—**	—	4,105
Changes in operating assets and liabilities, excluding amounts acquired in business combinations:			
Increase in accounts receivable	**(12,527)**	(34,145)	(6,070)
Decrease/(increase) in inventories	**(78)**	520	(986)
Decrease/(increase) in prepaid expenses and other current assets	**(2,188)**	76	11,659
Increase/(decrease) in accounts payable and other current liabilities	**(13,017)**	32,431	(2,785)
Increase in income taxes	**18,726**	15,359	21,346
Decrease/(increase) in other assets	**(722)**	(2,003)	5,607
Increase/(decrease) in other liabilities	**3,788**	(1,146)	(627)
Excess tax benefit on share-based compensation	**(5,600)**	—	—
Noncash expense of internally financed ESOPs	**—**	1,060	1,894
Other sources/(uses)	**2,109**	912	(1,043)
Net cash provided by continuing operations	**89,469**	81,953	88,484
Net cash provided/(used) by discontinued operations (Note 7)	**9,120**	(1,940)	4,406
Net cash provided by operating activities	**98,589**	80,013	92,890
Cash Flows from Investing Activities			
Capital expenditures	**(21,987)**	(25,734)	(18,290)
Business combinations, net of cash acquired (Note 8)	**(4,145)**	(6,165)	(343,051)
Net uses from sale of discontinued operations (Note 7)	**(922)**	(9,367)	(759)
Proceeds from sales of property and equipment	**347**	157	772
Investing activities of discontinued operations (Note 7)	**(260)**	(239)	(1,774)
Return of deposit to secure merger offer	**—**	—	10,000
Other uses	**(765)**	(394)	(107)
Net cash used by investing activities	**(27,732)**	(41,742)	(353,209)
Cash Flows from Financing Activities			
Repayment of long-term debt (Note 13)	**(84,563)**	(141,592)	(96,940)
Purchases of treasury stock	**(19,885)**	(7,401)	(2,654)
Dividends paid	**(6,322)**	(6,172)	(5,718)
Excess tax benefit on share-based compensation	**5,600**	—	—
Proceeds from exercise of stock options (Note 2)	**3,861**	12,327	3,721
Increase/(decrease) in cash overdraft payable	**2,571**	6,752	1,265
Debt issuance costs	**(154)**	(1,755)	(14,447)
Proceeds from issuance of long-term debt (Note 13)	**—**	85,000	295,000
Issuance of capital stock, net of costs	**—**	—	95,102
Collection of stock subscription note receivable	**—**	—	8,053
Redemption of convertible junior subordinated securities (Note 1)	**—**	—	(2,735)
Financing activities of discontinued operations (Note 7)	**—**	—	(255)
Other sources/(uses)	**176**	255	687
Net cash provided/(used) by financing activities	**(98,716)**	(52,586)	281,079
Increase/(decrease) in cash and cash equivalents	**(27,859)**	(14,315)	20,760
Cash and cash equivalents at beginning of year	**57,133**	71,448	50,688
Cash and cash equivalents at end of year	**$ 29,274**	$ 57,133	$ 71,448

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

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

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

	Capital Stock	Paid-in Capital	Retained Earnings
Balance at December 31, 2003	$ 13,453	$167,547	$119,746
Net income	—	—	27,512
Dividends paid ($0.48 per share — pre-split)	—	—	(5,718)
Stock awards and exercise of stock options (Note 2)	130	8,120	—
Retirement of treasury shares	(400)	(12,076)	—
Issuance of common shares	—	32,722	—
Decrease in notes receivable	—	—	—
Purchases of treasury stock	—	1,894	—
Conversion of convertible preferred securities	308	10,639	—
Other	—	255	2
Balance at December 31, 2004	13,491	209,101	141,542
Net income	—	—	35,817
Dividends paid ($0.24 per share)	—	—	(6,172)
Stock awards and exercise of stock options (Note 2)	1,028	38,383	—
Decrease in notes receivable	—	—	—
Purchases of treasury stock	—	1,060	—
Impact of common share split (Note 23)	13,855	(13,855)	—
Other	—	221	1
Balance at December 31, 2005	**28,374**	**234,910**	**171,188**
Net income	**—**	**—**	**50,651**
Dividends paid ($0.24 per share)	**—**	**—**	**(6,322)**
Stock awards and exercise of stock options (Note 2)	**476**	**17,663**	**—**
Decrease in notes receivable	**—**	**—**	**—**
Purchases of treasury stock (Notes 2 and 23)	**—**	**—**	**—**
Other	**—**	**66**	**—**
Balance at December 31, 2006	**$ 28,850**	**$ 252,639**	**$ 215,517**

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

	Treasury Stock- at Cost	Deferred Compensation Payable in Company Stock	Notes Receivable for Shares Sold	Total
Balance at December 31, 2003	$(109,427)	$ 2,308	$ (934)	$192,693
Net income	—	—	—	27,512
Dividends paid ($0.48 per share — pre-split)	—	—	—	(5,718)
Stock awards and exercise of stock options (Note 2)	771	—	—	9,021
Retirement of treasury shares	12,476	—	—	—
Issuance of common shares	62,380	—	—	95,102
Decrease in notes receivable	(10)	—	390	380
Purchases of treasury stock	(63)	—	—	1,831
Conversion of convertible preferred securities	—	—	—	10,947
Other	—	67	—	324
Balance at December 31, 2004	(33,873)	2,375	(544)	332,092
Net income	—	—	—	35,817
Dividends paid ($0.24 per share)	—	—	—	(6,172)
Stock awards and exercise of stock options (Note 2)	(18,204)	—	—	21,207
Decrease in notes receivable	(9)	—	(5)	(14)
Purchases of treasury stock	(41)	—	—	1,019
Impact of common share split (Note 23)	—	—	—	—
Other	—	4	—	226
Balance at December 31, 2005	**(52,127)**	**2,379**	**(549)**	**384,175**
Net income	**—**	**—**	**—**	**50,651**
Dividends paid ($0.24 per share)	**—**	**—**	**—**	**(6,322)**
Stock awards and exercise of stock options (Note 2)	**(9,840)**	**—**	**—**	**8,299**
Decrease in notes receivable	**(485)**	**—**	**549**	**64**
Purchases of treasury stock (Notes 2 and 23)	**(15,612)**	**—**	**—**	**(15,612)**
Other	**—**	**40**	**—**	**106**
Balance at December 31, 2006	**$ (78,064)**	**$ 2,419**	**$ —**	**$ 421,361**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Chemed Corporation and Subsidiary Companies

1. Summary of Significant Accounting Policies

NATURE OF OPERATIONS

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

PRINCIPLES OF CONSOLIDATION

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

We have analyzed the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 46R "Consolidation of Variable Interest Entities —an interpretation of Accounting Research Bulletin No. 51 (revised)" ("FIN 46R") relative to contractual relationships with our Roto-Rooter independent contractors and franchisees. FIN 46R requires the primary beneficiary of a Variable Interest Entity ("VIE") to consolidate the accounts of the VIE. We have evaluated the relationships with our independent contractors and franchisees based upon guidance provided in FIN 46R and have concluded that certain of the independent contractors may be VIEs. Based on our evaluation, the franchisees are not VIEs. We believe consolidation, if required, of the accounts of any independent contractor for which we might be the primary beneficiary would not materially impact our financial position or results of operations.

CASH EQUIVALENTS

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

ACCOUNTS AND LOANS RECEIVABLE AND CONCENTRATION OF RISK

Accounts and loans receivable are recorded at the principal balance outstanding less estimated allowances for uncollectible accounts. For the Roto-Rooter segment, allowances for trade accounts receivable are generally provided for accounts more than 90 days past due, although collection efforts continue beyond that time. Due to the small number of loans receivable outstanding, allowances for loan losses are determined on a case-by-case basis. For the VITAS segment, allowances for patient accounts receivable are generally provided on accounts more than 240 days old plus an appropriate percentage of accounts not yet 240 days old. 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, 2006 and 2005, approximately 62% and 65%, respectively of VITAS' total accounts receivable balance were due from Medicare and 30% and 27%, respectively of VITAS' total accounts receivable balance were due from various state Medicaid programs. Combined accounts receivable from Medicare and Medicaid represent 81% of the net accounts receivable in the accompanying consolidated balance sheet as of December 31, 2006. We closely monitor our programs to ensure compliance with Medicare and Medicaid regulations.

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.

OTHER INVESTMENTS

At December 31, 2005, other investments, which were classified as available-for-sale, comprised a common stock purchase warrant in privately held Patient Care Inc. ("Patient Care"), our former subsidiary. As further discussed in Note 7, our investment in the Patient Care warrant, which was carried at cost, was written-off in fiscal 2006.

All investments are reviewed periodically for impairment based on available market and financial data. If the market value or net realizable value of the investment is less than our cost and the decline is determined to be other than temporary, a write-down to fair value is made, and a realized loss is recorded in the statement of income. In calculating realized gains and losses on the sales of investments, the specific-identification method is used to determine the cost of investments sold.

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 Statement of Position 98-1, “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, 2006, were:

Buildings	16.2 yrs.
Transportation equipment	5.9
Machinery and equipment	5.9
Computer software	4.3
Furniture and fixtures	5.0

GOODWILL AND INTANGIBLE ASSETS

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

The weighted average lives of our identifiable, definite-lived intangible assets at December 31, 2006, were:

Covenants not to compete	6.3 yrs.
Referral networks	10.0
Customer lists	13.3

LONG-LIVED ASSETS

If we believe a triggering event may have occurred that indicates a possible impairment of our long-lived assets, we perform an estimation and valuation of the future benefits of our long-lived assets (other than goodwill and the VITAS trade name) based on key financial indicators. If the projected undiscounted cash flows of a major business unit indicate that property and equipment or identifiable, definite-lived intangible assets have been impaired, a write-down to fair value is made. As further discussed in Note 7, VITAS sold its Phoenix program in 2006. Prior to that sale, we determined that property and equipment of this program with a carrying value of $216,000 was impaired and recorded an impairment charge in September 2006. No other events occurred during 2006 or 2005 that indicated an impairment assessment was required.

OTHER ASSETS

Debt issuance costs are included in other assets and 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. VITAS recognizes revenue at the estimated realizable amount due from third-party payers. Medicare billings are subject to certain limitations, as described further 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 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 2006, 2005 or 2004.

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 action to change 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 the amount as a reduction to service revenue.

During the year ended December 31, 2006, we recorded a pretax charge in continuing operations of $3.9 million for the estimated Medicare cap liability. Medicare cap charges related to our Phoenix operation were $7.9 million and are included in discontinued operations, as further discussed in Note 7. The components of the pretax charges are as follows (in thousands):

	Phoenix	All Other	Total
2007 measurement period	$ —	$ 470	$ 470
2006 measurement period	7,260	2,903	10,163
2005 measurement period	671	525	1,196
Total	$ 7,931	$ 3,898	$11,829

Charges for the 2005 measurement period relate to prior year billing limitations resulting from the fiscal intermediary reallocating admissions for deceased Medicare patients who received hospice care from multiple providers. The amounts for the 2006 and 2007 measurement periods are estimates made by management based upon Medicare admissions and Medicare revenue in each program.

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, we enter into various guarantees and indemnifications in our relationships with customers and others. Examples of these arrangements include guarantees of services for periods ranging from one day to one year and product satisfaction guarantees. Our experience indicates guarantees and indemnifications do not materially impact our financial condition or results of operations. Based on our experience, no liability for guarantees has been recorded as of December 31, 2006 or 2005.

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 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.

ADVERTISING

We expense the production costs of advertising the first time the advertising takes place. The costs of yellow page 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 replaced by the publisher with a new directory. We generally pay for the 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. Other advertising costs are expensed as incurred. Advertising expense for continuing operations for the year ended December 31, 2006 was $23.3 million (2005 – $21.2 million; 2004-$20.0 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. Diluted earnings per share also assumed the conversion of the Convertible Junior Subordinated Debentures ("CJSD") into capital stock prior to the redemption of the CJSD in 2004, only when the impact was dilutive on earnings per share from continuing operations. 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

Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123, revised ("SFAS 123(R)") which establishes accounting for stock-based compensation for employees. Under SFAS 123(R), 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 previously applied Accounting Principles Board Opinion No. 25 and provided the pro-forma disclosures required by Statement of Financial Accounting Standards No. 123. We elected to adopt the modified prospective transition method as provided by SFAS 123(R). Accordingly, we have not restated previously reported financial statement amounts. Other than certain reclassifications, there was no material impact on our financial position, results of operations or cash flows as a result of the adoption of SFAS 123(R).

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. For most of the prior years, the caps for general liability and workers' compensation were between $250,000 and $500,000 per claim. 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 $500,000. For most of the prior years, the caps for workers' compensation were between $250,000 and $500,000 per claim. For VITAS' self-insurance accruals for workers' compensation, we obtained an actuarial valuation of the liability as of February 24, 2004 (the date of acquisition) and as of November 30, 2006 and 2005. The valuation methods used by the actuary are similar to those used internally for our other business units.

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, the Federal and most state jurisdictions. Significant judgment is required to determine our provision for income taxes. We are periodically audited by various taxing authorities. We establish liabilities for possible assessments by taxing authorities resulting from exposures including, the deductibility of certain expenses and the tax treatment related to acquisitions and divestitures. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe our tax reserves reflect the probable outcome of known contingencies, including interest and penalties, if applicable.

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

Prior year amounts have been reclassified to conform with current period presentation in the balance sheet, statement of income and statement of cash flows primarily related to operations discontinued in 2006.

RECENT ACCOUNTING STATEMENTS

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements" ("SAB 108"). Traditionally, there have been two widely recognized methods for quantifying the effects of financial statement misstatements. The first, called the "rollover" method, focuses primarily on the income statement effect of a misstatement but its use can lead to the accumulation of misstatements on the balance sheet. The other method, the "iron curtain" method, focuses primarily on the balance sheet effect of a misstatement but its use can cause out-of-period adjustments in the income statement.

SAB 108 requires companies to evaluate financial statement misstatements using both methods, referred to as the "dual approach." An issuer may either restate all periods presented as if the dual approach had always been used or record the cumulative effect of using the dual approach to assets and liabilities with an offsetting adjustment to the opening balance of retained earnings as of January 1, 2006. There was no impact on our financial statements for the adoption of SAB 108.

In September 2006, the FASB issued Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS 158"). The new standard requires employers to recognize fully the obligations associated with single-employer defined benefit pension, retiree healthcare and other postretirement plans in their financial statements. Under past accounting standards, the funded status of an employer's postretirement benefit plan (i.e., the difference between the plan assets and obligations) was not always completely reported in the balance sheet. Employers reported an asset or liability that almost always differed from the plan's funded status because previous accounting standards allowed employers to delay recognition of certain changes in plan assets and obligations that affected the costs of providing such benefits. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006. There was no impact on our financial statements for the adoption of SFAS 158.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" ("SFAS 157"), which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles (GAAP). It sets a common definition of fair value to be used throughout GAAP. The new standard is designed to make the measurement of fair value more consistent and comparable and improve disclosures about those measures. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating the impact SFAS 157 will have on our financial condition and results of operations.

In September 2006, the FASB issued a staff position related to the accounting for planned major maintenance activities. The staff position sets forth four alternative methods of accounting for planned major maintenance activities but disallowed the accrue-in-advance method. The accrue-in-advance method provides for estimating the cost of major maintenance activities and accruing that cost in advance of the maintenance being performed. The guidance is effective for the first fiscal year beginning after December 15, 2006. There will be no material impact on our financial statements as a result of adopting this staff position.

In July 2006, the FASB issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement 109", which prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return. Upon adoption of FIN 48, the financial statements will reflect expected future tax consequences of such uncertain positions assuming the taxing authorities' full knowledge of the position and all relevant facts. FIN 48 also revises disclosure requirements and introduces an annual, tabular roll-forward of the unrecognized tax benefits. This interpretation is effective as of the beginning of fiscal years starting after December 15, 2006. We believe that the cumulative effect upon adoption of FIN 48, as of January 1, 2007, will reduce our accrual for uncertain tax positions by approximately $3 million to $5 million. We do not anticipate the adoption of FIN 48 will have a material impact on our 2007 effective tax rate.

2. Stock Based Compensation Plans

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

- We have nine stock incentive plans under which 10,700,000 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 3,000,000 shares, was adopted in May 2006 and revised in August 2006. The plans are not qualified, restricted or incentive plans under the U.S Internal Revenue Code. The terms of each plan differ slightly, however, stock options issued under the plans generally have a maximum term of 10 years. Under one plan, adopted in 1999, up to 500,000 shares may be issued to employees who are not our officers or directors.

- In May 2002, our shareholders approved the adoption of the Executive Long-Term Incentive Plan (“LTIP”) covering our officers and key employees. The LTIP is administered by the CIC. During June 2004, the CIC approved guidelines covering the establishment of a pool of 250,000 shares (“2004 LTIP Pool”) to be distributed to eligible members of management upon attainment of the following hurdles during the period January 1, 2004 through December 31, 2007:
  - 88,000 shares if our cumulative pro forma adjusted EBITDA (including the results of VITAS beginning January 1, 2004) reaches $365 million within the four-year period.
  - 44,000 shares represent a retention element, subject to a four-year, time-based vesting.
  - 30,000 shares may be awarded at the discretion of the CIC. Through December 31, 2006, 18,000 shares have been issued from the discretionary pool.
  - 88,000 shares if our stock price reaches the following hurdles during any 30 trading days out of any 60 trading day period during the four-year period:

Stock Price Hurdle	**Shares to be Issued**
$ 35.00	22,000
$ 38.75	33,000
$ 42.50	33,000
	88,000

On June 22, 2004, the CIC awarded 44,000 restricted shares of stock to key employees under the retention component of the 2004 LTIP Pool. These shares vest on December 31, 2007, for all participants still employed by us. The total cost of these awards is $1.1 million, based on the fair value of the stock on the date of the award. Of this amount, $1.0 million relates to continuing operations and is being amortized on a straight-line basis over the 42-month period ending December 31, 2007.

During the first quarter of 2005, the price of our stock exceeded $35 per share for 30 trading days, fulfilling one of the stock price hurdles. On March 11, 2005, the CIC approved a payout of 25,000 shares of capital stock under the LTIP. The pretax expense of this award from continuing operations, including payroll taxes and benefit costs, was $1.1 million ($695,000 aftertax).

During the second quarter of 2005, the price of our stock exceeded $38.75 per share for 30 trading days, fulfilling one of the stock price hurdles. On July 11, 2005, the CIC approved a payout of 37,500 shares of capital stock under the LTIP. The pretax expense of this award from continuing operations, including payroll taxes and benefit costs, was $1.8 million ($1.2 million aftertax).

During the fourth quarter of 2005, the price of our stock exceeded $42.50 per share for 30 trading days, fulfilling one of the stock price hurdles. On December 2, 2005, the CIC approved a payout of 43,500 shares of capital stock under the LTIP. The pretax expense of this award from continuing operations, including payroll taxes and benefit costs, was $2.5 million ($1.6 million aftertax).

As of December 31, 2006, no accrual for the cost of possible awards under the remaining components of the 2004 LTIP Pool was made since the targets have not been attained and no individual participant’s share of a possible award has been identified or approved by the CIC.

As of December 31, 2006, a total of 100,000 shares may be earned under the EBITDA and contingent hurdles of the 2004 LTIP pool. On May 15, 2006, the CIC approved additional price hurdles and associated shares to be issued under the LTIP pursuant to the 2006 Stock Incentive Plan, as follows:

Stock Price Hurdle	**Shares to be Issued**
$ 62.00	20,000
$ 68.00	30,000
$ 75.00	30,000
	80,000

The stock price hurdles must be achieved during 30 trading days out of any 60 trading day period during the three years ending May 15, 2009.

- We maintain an Employee Stock Purchase Plan (“ESPP”). The ESPP allows eligible participants to purchase our shares through payroll deductions at current market value. We pay administrative and broker fees associated with the ESPP Shares purchased for the ESPP are purchased on the open market and credited directly to participants' accounts. In accordance with the provisions of SFAS 123(R), the ESPP is non-compensatory.

In March 2005, the Board of Directors approved immediate vesting of all unvested stock options to avoid recognizing approximately $951,000 of pretax expense that would have been charged to income upon adoption of SFAS 123R. The $215,000 pretax charge for accelerating the vesting of these options is included in operating income for the year ended December 31, 2005. For the year ended December 31, 2006, we recorded $1.3 million in amortization expense in the accompanying statement of income for stock-based compensation related to the amortization of restricted stock awards granted. For the year ended December 31, 2006, we recorded $1.2 million in selling, general and administrative expenses for stock-based compensation related to stock options granted. There were no capitalized stock-based compensation costs as of December 31, 2006. The pro-forma disclosure as required by SFAS No. 123 is as follows (in thousands):

	For the Years Ended December 31,	
	2005	**2004**
Net income, as reported	$ 35,817	$27,512
Add: stock-based compensation expense included in net income as reported, net of income taxes	4,314	3,940
Deduct: total stock-based compensation determined under a fair value method, net of income taxes	(8,519)	(8,259)
Pro-forma net income	$ 31,612	$ 23,193
Earnings per share:		
As reported	$ 1.40	$ 1.14
Pro-forma	$ 1.24	$ 0.96
Diluted earnings per share:		
As reported	$ 1.36	$ 1.12
Pro-forma	$ 1.20	$ 0.94

The above pro forma data were calculated using the Black-Scholes option valuation method to value our stock options granted. Key assumptions include:

	For the Years Ended December 31,	
	2005	**2004**
Weighted average grant-date fair value of options granted	$ 12.43	$ 6.80
Risk-free interest rate	4.0%	3.9%
Expected volatility	30.9%	30.3%
Expected life of options	5 yrs.	5 yrs.
Annual dividend per share	$ 0.24	$ 0.24

As of December 31, 2006, approximately $2.6 million of total unrecognized compensation costs related to non-vested stock awards are expected to be recognized over a weighted average period of 2.5 years. As of December 31, 2006, approximately $5.4 million of total unrecognized compensation costs related to non-vested stock options are expected to be recognized over a weighted average period of 2.5 years.

The following table summarizes stock option and award activity:

	Stock Options		Stock Awards	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Grant-Date Price
Stock-based compensation shares:				
Outstanding at January 1, 2006	1,741,833	$ 23.57	142,445	$ 27.10
Granted	370,450	51.76	29,600	53.17
Exercised/Vested	(449,161)	21.06	(34,456)	36.62
Forfeited	(2,600)	31.48	(3,049)	29.78
Outstanding at December 31, 2006	1,660,522	$ 30.53	134,540	$ 30.33
Vested at December 31, 2006	1,290,672	$ 24.44		

The weighted average contractual life of outstanding and exercisable options was 6.5 years at December 31, 2006. Options outstanding at December 31, 2006, were in the following exercise price ranges:

Exercise Price Range	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
$16.10 to $30.53	981,272	$ 20.14	$17,008,000
$30.54 to $51.76	679,250	$ 45.54	$ —

The total intrinsic value of stock options exercised during the years ended December 31, 2006, 2005 and 2004 was $14.7 million, $28.3 million and $5.3 million, respectively. The total intrinsic value of stock options that were vested as of December 31, 2006, 2005 and 2004 was $16.8 million, $45.4 million and $31.3 million, respectively. The total intrinsic value of stock awards vested during the years ended December 31, 2006, 2005 and 2004 was $1.7 million, $5.6 million and $5.0 million, respectively. The total cash received from employees as a result of employee stock option exercises for the years ended December 31, 2006, 2005 and 2004 was $3.9 million, $12.3 million and $3.7 million, respectively. In connection with these exercises, the excess tax benefits realized for the years ended December 31, 2006, 2005 and 2004 were $5.6 million, $10.8 million and $1.9 million, respectively. We settle employee stock options with newly issued shares.

We estimate the fair value of stock options using the Black-Scholes valuation model, consistent with the provisions of SFAS 123(R), the Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 107 and our prior period pro forma disclosure of net income including stock-based compensation expense. 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. We granted 370,450 stock options on June 28, 2006 pursuant to the 2006 Stock Incentive Plan. For purposes of determining the key assumptions and the related fair value of the options granted, we analyzed the participants of the LTIP separately from the other stock option recipients. The assumptions we used to value the June 28, 2006 grant are as follows:

	LTIP Participants	All Others
Stock price on date of issuance	$ 51.76	$ 51.76
Grant date fair value per share	$ 18.95	$ 16.47
Number of options granted	262,750	107,700
Expected term (years)	6.0	4.5
Risk free rate of return	5.21%	5.19%
Volatility	28.0%	28.9%
Dividend yield	0.5%	0.5%
Forfeiture rate	—%	10.0%

3. Segments and Nature of the Business

Our segments comprise the VITAS segment and the Roto-Rooter segment. Service America, which was sold in 2005, has been reclassified to discontinued operations for all periods presented. Relative contributions of each segment to service revenues and sales were 69% and 31%, respectively, in 2006. Relative contributions of each segment to service revenues and sales were 68% and 32%, respectively, in 2005. The vast majority of our service revenues and sales from continuing operations are generated from business within the United States.

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

- The VITAS segment provides hospice services for patients with severe, life-limiting illnesses. This type of care is aimed at making the terminally ill patient's final days as comfortable and pain-free as possible. Hospice care is typically available to patients who have been initially 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 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 mark. Such services include plumbing and sewer, drain and pipe cleaning. They are delivered through company-owned and operated territories, independent contractor-operated territories and franchised locations. This segment also manufactures and sells products and equipment used to provide such services.
- We report corporate administrative expenses and unallocated investing and financing income and expense not directly related to either segment as "Corporate". Corporate administrative expense includes the stewardship, accounting and reporting, legal, tax and other costs of operating a publicly held corporation. Corporate investing and financing income and expenses include the costs and income associated with corporate debt and investment arrangements. Historically, we allocated stock-based compensation expense to the segment that employs its recipient. In connection with our adoption of SFAS 123(R), we re-assessed the classification within our business segments of stock-based compensation expense and determined that our chief decision maker analyzes stock-based compensation as a corporate expense. Accordingly, all stock-based compensation expense for 2006, 2005 and 2004 has been included as a corporate expense in the chart below.

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

	For the Years Ended December 31,		
	2006	2005	2004
Revenues by Type of Service			
VITAS			
Routine homecare	**$ 492,012**	$ 426,380	$315,925
Continuous care	**121,096**	106,417	78,669
General inpatient	**89,882**	85,836	63,673
Medicare cap	**(3,898)**	—	—
Total segment	**699,092**	618,633	458,267
Roto-Rooter			
Sewer and drain cleaning	**144,758**	134,338	127,942
Plumbing repair and maintenance	**128,732**	118,625	107,642
Independent contractors	**19,169**	18,070	16,360
HVAC repair and maintenance	**2,821**	3,624	3,111
Other products and services	**24,015**	22,680	21,555
Total segment	**319,495**	297,337	276,610
Total service revenues and sales	**$1,018,587**	$915,970	$ 734,877

	For the Years Ended December 31,		
	2006	2005	2004
Aftertax Segment Earnings/(Loss)			
VITAS	**$ 48,418**	$ 33,505	$ 29,160
Roto-Rooter	**32,454**	27,626	19,801
Total	**80,872**	61,131	48,961
Corporate	**(23,150)**	(24,903)	(25,761)
Equity in VITAS loss	**—**	—	(4,105)
Discontinued operations	**(7,071)**	(411)	8,417
Net income	**$ 50,651**	$ 35,817	$ 27,512
Interest Income			
VITAS	**$ 5,443**	$ 2,792	$ 1,091
Roto-Rooter	**4,082**	2,391	1,180
Total	**9,525**	5,183	2,271
Corporate	**2,492**	1,805	1,403
Intercompany eliminations	**(9,326)**	(4,790)	(1,800)
Total interest income	**$ 2,691**	$ 2,198	$ 1,874
Interest Expense			
VITAS	**$ 191**	$ 153	$ 128
Roto-Rooter	**368**	563	206
Total	**559**	716	334
Corporate	**16,909**	20,548	20,824
Total interest expense	**$ 17,468**	$ 21,264	$ 21,158
Income Tax Provision			
VITAS	**$ 28,705**	$ 20,097	$ 20,037
Roto-Rooter	**18,748**	16,048	11,202
Total	**47,453**	36,145	31,239
Corporate	**(14,891)**	(17,717)	(17,503)
Total income tax provision	**$ 32,562**	$ 18,428	$ 13,736
Identifiable Assets			
VITAS	**$517,112**	$ 523,494	$ 500,670
Roto-Rooter	**185,580**	179,063	174,310
Total	**702,692**	702,557	674,980
Corporate	**84,890**	123,725	129,344
Discontinued Operations	**5,705**	12,821	21,242
Total identifiable assets	**$793,287**	$ 839,103	$825,566
Additions to Long-Lived Assets			
VITAS	**$ 14,419**	$ 24,462	$ 434,509
Roto-Rooter	**10,268**	7,938	8,690
Total	**24,687**	32,400	443,199
Corporate	**137**	443	785
Total additions to long-lived assets	**$ 24,824**	$ 32,843	$ 443,984
Depreciation and Amortization			
VITAS	**$ 12,669**	$ 11,504	$ 9,061
Roto-Rooter	**7,737**	8,361	8,702
Total	**20,406**	19,865	17,763
Corporate	**1,624**	1,207	558
Total depreciation and amortization	**$ 22,030**	$ 21,072	$ 18,321

4. Equity Interest in Affiliate (VITAS)

Until February 23, 2004, we held a 37% interest in privately held VITAS. During the period January 1 through February 23, 2004, VITAS recognized a net loss of $18.3 million due to the recognition of approximately $20.9 million of aftertax costs related to VITAS' sale of its business to us. Our aftertax share of VITAS' loss for this period was $ 4.1 million.

Included in the aftertax costs related to VITAS' sale of its business are the following (in thousands):

Accrual for potential severance costs under key employment agreements	$ 10,975
Legal and valuation costs	6,665
Loss on write-off of VITAS' deferred debt issuance costs	2,698
Other	592
Total	$ 20,930

5. Goodwill and Intangible Assets

Amortization of definite-lived intangible assets from continuing operations was $4.0 million, $4.0 million and $3.5 million for the years ended December 31, 2006, 2005 and 2004, respectively. The following is a schedule by year of projected amortization expense for definite-lived intangible assets (in thousands):

2007	**$ 4,038**
2008	**4,032**
2009	**4,002**
2010	**1,995**
2011	**1,197**
Thereafter	**2,651**

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

	Gross Asset	Accumulated Amortization	Net Book Value
December 31, 2006			
Referral networks	**$ 21,142**	**$ (7,858)**	**$ 13,284**
Covenants not to compete	**8,751**	**(4,433)**	**4,318**
Customer lists	**1,223**	**(910)**	**313**
Subtotal — definite-lived intangibles	**31,116**	**(13,201)**	**17,915**
VITAS trade name	**51,300**	**—**	**51,300**
Total	**$ 82,416**	**$ (13,201)**	**$ 69,215**
December 31, 2005			
Referral networks	$ 20,900	$ (5,108)	$15,792
Covenants not to compete	8,678	(3,238)	5,440
Customer lists	1,222	(866)	356
Subtotal — definite-lived intangibles	30,800	(9,212)	21,588
VITAS trade name	51,300	—	51,300
Total	$ 82,100	$ (9,212)	$ 72,888

The changes in the carrying amount of goodwill for the years ended December 31, 2005 and 2006 are as follows (in thousands):

	VITAS	Roto-Rooter	Total
December 31, 2004	$ 323,170	$ 108,402	$ 431,572
Acquired in business combinations, net of purchase accounting adjustments	414	498	912
Other adjustments	—	112	112
December 31, 2005	323,584	109,012	432,596
Acquired in business combinations, net of purchase accounting adjustments	**(311)**	**2,727**	**2,416**
Other adjustments	**—**	**38**	**38**
December 31, 2006	**$323,273**	**$ 111,777**	**$ 435,050**

We performed impairment tests of goodwill for all of our reporting units and for the VITAS trade name as of December 31, 2005. As further discussed in Note 24, in 2006, we changed the date of our annual goodwill impairment analysis to October 1.

For all reporting units included in continuing operations, the impairment tests indicated that our goodwill and VITAS trade name are not impaired. For the purpose of impairment testing, we consider the reporting units to be VITAS, Roto-Rooter Services (plumbing and drain cleaning services) and Roto-Rooter Franchising and Products (franchising and manufacturing and sale of plumbing and drain cleaning products). As further discussed in Note 7, VITAS sold its Phoenix program in November 2006. Prior to that sale, we determined that the acquired referral network was impaired and recorded a pretax impairment loss of $2.2 million during September 2006.

6. Other Expenses

Other expenses from continuing operations include the following pretax charges (in thousands):

	For the Year Ended December 31,		
	2006	2005	2004
Costs related to class action litigation	**$ 272**	$ 17,350	$ 3,135
Adjustments to transaction-related costs of the VITAS acquisition	**—**	(959)	442
Expenses related to debt registration	**—**	—	1,191
Total other expenses	**$ 272**	$ 16,391	$ 4,768

7. Discontinued Operations

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

	For the Years Ended December 31,		
	2006	2005	2004
VITAS Phoenix (2006):			
Income/(loss) before income taxes	**$ (9,117)**	$ 2,627	$ 152
Income taxes	**3,645**	(1,150)	(61)
Income/(loss) from operations, net of income taxes	**(5,472)**	1,477	91
Gain on disposal, net of income tax expense of $391	**600**	—	—
	(4,872)	1,477	91
Service America (2004):			
Income/(loss) before income taxes	**(141)**	576	(535)
Income taxes	**109**	(241)	222
Income/(loss) from operations, net of income taxes	**(32)**	335	(313)
(Loss)/gain on disposal, net of income tax benefit of $165 and $14,232 respectively	—	(2,148)	8,872
	(32)	(1,813)	8,559
Adjustment to accruals of operations discontinued in prior years:			
Settlement costs and other accruals (2002)	**(2,246)**	(120)	—
Environmental accruals (1991)	**(1,194)**	—	(700)
Allowance for uncollectible notes receivable and other accruals (2001)	**28**	—	383
Loss before income taxes	**(3,412)**	(120)	(317)
All other income taxes	**1,245**	45	84
Total adjustments	**(2,167)**	(75)	(233)
Total discontinued operations	**$ (7,071)**	$ (411)	$ 8,417
Earnings/(loss) per share	**$ (0.27)**	$ (0.02)	$ 0.35
Diluted earnings/(loss) per share	**$ (0.26)**	$ (0.02)	$ 0.34

In September 2006, our Board of Directors approved and we announced our intention to exit the hospice market in Phoenix, Arizona. Although we were successful in growing admissions of terminally ill patients, our growth was primarily patients who reside in assisted living settings. Patients residing in these types of facilities tend to exit curative care and enter into hospice care relatively early in their terminal diagnosis. The Medicare Cap limits payment for hospice care when a significant portion of the patient census enters into hospice early in their terminal diagnosis. Although we have, on average, relatively short average and median lengths of stay in the majority of our programs, all programs are measured separately and cannot be considered in the aggregate of programs under common control. Due to these billing limitations, we experienced significant operating losses at this program. As a result of our announcement, we performed impairment tests of our long-lived assets of the Phoenix operation as of September 30, 2006 in accordance with Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” An impairment charge of $2.4 million was recorded for the referral network intangible asset and fixed assets during the third quarter of 2006. The sale was completed in November 2006. The acquiring corporation purchased the substantial majority of assets of the Phoenix program for $2.5 million.

On September 28, 2006, we announced a preliminary settlement in regard to litigation related to the 2002 divestiture of our Patient Care business segment. In connection with the sale of Patient Care in 2002, $5.0 million of the cash purchase price was placed in escrow pending collection of third-party payer receivables on Patient Care’s balance sheet at the sale date. As of the settlement date, $4.2 million had been returned and the remainder was being withheld pending the settlement of certain third-party payer claims. Prior to the settlement, we had a long-term receivable from Patient Care of $12.5 million. We also had current accounts receivable from Patient Care for the post-closing balance sheet valuation and for expenses paid by us after closing on Patient Care’s behalf of $3.4 million. We were in litigation with Patient Care over the collection of these current amounts and their allegations that our acquisition of VITAS violated a non-compete covenant in the sales agreement. We also have a warrant to purchase 2% of Patient Care’s common stock that we recorded as a $1.4 million investment.

We settled this case in October 2006. We agreed to forgive $1.2 million of the current receivable related to the post-closing balance sheet valuation and convert the remaining amount into debt secured by a promissory note with the same terms as the $12.5 million long-term receivable. We have incurred additional costs related to the settlement of $1.1 million for additional insurance and legal costs related to workers' compensation claims incurred prior to the sale. The after tax charge related to these amounts of $1.5 million has been recorded as discontinued operations. As a result of financial information received during the negotiations, we determined that the value of the warrants has been permanently impaired and have recorded a pretax impairment charge of $1.4 million. This charge is included in income from continuing operations on the consolidated statement of income.

In December 2004, the Board of Directors authorized the discontinuance of our Service America segment through an asset sale to employees of Service America. The disposal was completed in May 2005. Our decision to dispose of Service America, which provides major-appliance and heating/air conditioning repair, maintenance and replacement services, was based on declining operating results and projected operating losses. The acquiring corporation purchased the substantial majority of Service America's assets in exchange for assuming substantially all of Service America's liabilities. The loss on disposal of Service America in 2005 arises from the finalization of asset and liability values and related tax benefits resulting from the consummation of the sale transaction. Included in the assets acquired was a receivable from us for approximately $4.7 million. We paid $1 million of the amount upon closing and the remainder was due over the following year in 11 equal installments. No balances are due Service America as of December 31, 2006. The balance due Service America as of December 31, 2005 was $1.3 million. We recognized a tax benefit of approximately $14.2 million on this disposal in 2004, primarily due to the recognition of non-deductible goodwill impairment losses in prior years.

During 2004, we increased our accrual for environmental liabilities related to the disposal of DuBois Chemicals, Inc. ("DuBois") in 1991 by $700,000. During 2006, we again increased our accrual for environmental liabilities related to the disposal of DuBois by $1.2 million. The adjustment made by us is based on an assessment by our environmental attorney, a preliminary settlement agreement with respect to one site and ongoing discussions with the U.S. Environmental Protection Agency. At December 31, 2006 and 2005, the accrual for our estimated liability for potential environmental cleanup and related costs arising from the sale of DuBois amounted to $3.5 million and $3.0 million, respectively. Of the 2006 balance, $2.6 million is included in other current liabilities and $900,000 is included in other liabilities (long-term). We are contingently liable for additional DuBois-related environmental cleanup and related costs up to a maximum of $14.9 million. On the basis of a continuing evaluation of the potential liability, we believe it is not probable this additional liability will be paid. Accordingly, no provision for this contingent liability has been recorded. The potential liability is not insured, and the recorded liability does not assume the recovery of insurance proceeds. Also, the environmental liability has not been discounted because it is not possible to reliably project the timing of payments. We believe that any adjustments to our recorded liability will not materially adversely affect our financial position or results of operations.

The $383,000 reduction to the allowance for uncollectible notes receivable from Cadre Computer Resources Co. ("Cadre Computer") (sold in 2001) in 2004 is attributable to Cadre Computer's experiencing better than anticipated financial results and to the expiration of $350,000 of Cadre Computer's line of credit with us.

Revenues generated by discontinued operations comprise (in thousands):

	For the Years Ended December 31,		
	2006	2005	2004
Service America	**$ —**	$ 10,716	$ 38,986
Phoenix	**(98)**	10,506	464
	$ (98)	$ 21,222	$ 39,450

At December 31, 2006, other current liabilities include accruals of $13.7 million and other liabilities (long-term) include accruals of $2.6 million for costs related to discontinued operations. The estimated timing of payments of these liabilities follows (in thousands):

2007	**$ 13,735**
2008	**932**
2009	**963**
2010	**454**
2011	**264**
After 2011	**-**
	$ 16,348

Our Chairman of the Board, President and Chief Executive Officer and our former Chief Administrative Officer (currently a director of our company) are directors of Cadre Computer. In addition, our former Chief Administrative Officer holds a 51% equity ownership interest in Cadre Computer at December 31, 2006 and is Chairman and Chief Executive Officer of Cadre Computer.

8. Business Combinations

During 2006, we completed three business combinations within the Roto-Rooter segment for an aggregate purchase price of $4.1 million in cash. We made no acquisitions within the VITAS segment during 2006. The Roto-Rooter acquisitions were completed mainly to increase our market penetration in Erie, Pennsylvania, Tyler, Texas and Lexington, Kentucky. The results of operations of these businesses are included in our results of operations from the date of acquisition. The purchase price allocations for the 2006 business combinations are preliminary and will be finalized during 2007.

During 2005, we completed one business combination within the Roto-Rooter segment and two within the VITAS segment for an aggregate purchase price of $6.2 million in cash. The acquisitions were completed mainly to increase our market penetration. The VITAS businesses acquired provide hospice services in the Pittsburgh, PA and Philadelphia, PA areas and the Roto-Rooter business acquired provides drain cleaning and plumbing services using the Roto-Rooter name in Greensboro, NC. The results of operations of these businesses are included in our results of operations from the date of acquisition.

During 2004, we completed two business combinations within the Roto-Rooter segment and two within the VITAS segment for an aggregate purchase price of $19.3 million in cash. The VITAS businesses acquired provide hospice services in the Phoenix, AZ and the Atlanta, GA areas, and the Roto-Rooter businesses acquired provide drain cleaning and plumbing services using the Roto-Rooter name in Harrisburg, PA and Spokane, WA. The results of operations of all of these businesses are included in our results of operations from the date of acquisition.

On February 24, 2004, we completed the acquisition of the 63% of VITAS common stock we did not previously own for cash consideration of $323.8 million. The total investment in VITAS, including $3.1 million of acquisition expenses and our $18.0 million prior investment in VITAS, was $366.2 million. We have completed the purchase price allocation and the excess of the purchase price over the fair value of the net assets acquired in purchase business combinations is classified as goodwill.

Total net assets acquired	$366,194
Less: prior investment in VITAS	(18,032)
Less-cash and cash equivalents acquired	(24,377)
Net cash used	$ 323,785

The purchase price of all businesses acquired during the year indicated, except the VITAS acquisition, has been allocated as follows (in thousands):

	For the Years Ended December 31,		
	2006	2005	2004
Identifiable intangible assets	**$ 315**	$ —	$ —
Goodwill	**2,416**	1,429	19,274
Other assets and Liabilities-net	**1,414**	4,736	(8)
Total net assets	**$ 4,145**	$ 6,165	$ 19,266

Approximately $20.9 million of the goodwill related to the VITAS acquisition and all of the goodwill related to business combinations completed in 2006, 2005 and 2004 is expected to be deductible for income tax purposes.

The unaudited pro forma results of operations, assuming purchase business combinations completed in 2006 and 2005 were completed on January 1, 2005 are presented below (in thousands, except per share data):

	For the Years Ended December 31,	
	2006	2005
Service revenues and sales	**$1,019,530**	$917,615
Net Income	**50,988**	36,196
Earnings per share	**1.95**	1.42
Diluted Earnings per share	**1.91**	1.38

9. Other Income—Net

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

	For the Years Ended December 31,		
	2006	2005	2004
Interest income	**$ 2,691**	$ 2,198	$ 1,874
Market value gains on trading investments of employee benefit trusts	**2,030**	863	1,859
Loss on disposal of property and equipment	**(161)**	(131)	(350)
Other — net	**88**	192	87
Total other income	**$ 4,648**	$ 3,122	$ 3,470

10. Income Taxes

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

	For the Years Ended December 31,		
	2006	2005	2004
Continuing Operations:			
Current			
U.S. federal	**$ 21,955**	$ 21,201	$ 7,042
U.S. state and local	**2,808**	1,763	1,209
Foreign	**391**	519	516
Deferred			
U.S. federal, state and local	**7,474**	(4,951)	5,060
Foreign	**(66)**	(104)	(91)
Total	**$ 32,562**	$ 18,428	$ 13,736
Discontinued Operations:			
Current U.S. federal	**$ (4,175)**	$(14,497)	$ (2,351)
Current U.S. state and local	**(440)**	(1,214)	(55)
Deferred U.S. federal, state and local	**7**	16,892	(12,071)
Total	**$ (4,608)**	$ 1,181	$(14,477)

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

	December 31,	
	2006	2005
Accrued liabilities	**$ 27,248**	$ 34,646
Allowance for uncollectible accounts receivable	**2,692**	2,765
State net operating loss carryforwards	**1,427**	1,878
Other	**3,556**	2,527
Deferred income tax assets	**34,923**	41,816
Amortization of intangible assets	**(32,162)**	(30,064)
Accelerated tax depreciation	**(8,222)**	(8,426)
Currents assets	**(1,776)**	(1,690)
Other	**(701)**	(422)
Deferred income tax liabilities	**(42,861)**	(40,602)
Net deferred income tax assets	**$ (7,938)**	$ 1,214

Included in other assets at December 31, 2006, are deferred income tax assets of $574,000 (December 31, 2005—$499,000). At December 31, 2006 and 2005, state net operating loss carryforwards were $29.0 million and $39.6 million, respectively. These net operating losses will expire, in varying amounts, between 2009 and 2026. 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. We believe no net operating losses will be lost due to the continuity of business requirement.

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,		
	2006	2005	2004
Income tax provision calculated using the statutory rate of 35%	**$ 31,599**	$ 19,130	$12,928
State and local income taxes, less federal income tax effect	**3,112**	1,994	2,500
Tax accrual adjustments	**(1,758)**	(2,387)	(2,025)
Other —net	**(391)**	(309)	333
Income tax provision	**$ 32,562**	$ 18,428	$ 13,736
Effective tax rate	36.1%	33.7%	37.2%

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

2006	**$ 3,823**
2005	9,923
2004	(13,131)

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 $12.8 million would be incurred based on current income tax rates.

11. Cash Overdrafts and Cash Equivalents

Included in accounts payable are cash overdrafts of $10.6 million and $8.0 million as of December 31, 2006 and 2005, respectively.

From time to time throughout the year, we invest our excess cash in repurchase agreements directly with major commercial banks. We do not physically hold the collateral, but the term of such repurchase agreements is less than 10 days. Investments of significant amounts are spread among a number of banks and the amounts invested in each bank are varied constantly. Included in cash and cash equivalents at December 31, 2006, are cash equivalents in the amount of

$22.5 million (2005-$53.2 million). The cash equivalents at both dates consist of investments in various money market funds and repurchase agreements yielding interest at a weighted average rate of 5.2% in 2006 and 4.1% in 2005.

12. Properties and Equipment

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

	December 31, 2006	December 31, 2005
Land	**$ 1,713**	$ 1,713
Buildings	**24,349**	22,941
Transportation equipment	**12,270**	12,696
Machinery and equipment	**42,474**	40,451
Computer software	**21,223**	19,568
Furniture and fixtures	**31,017**	26,142
Projects under development	**14,201**	8,271
Total properties and equipment	**147,247**	131,782
Less accumulated depreciation	**(77,107)**	(66,627)
Net properties and equipment	**$ 70,140**	$ 65,155

13. Long-Term Debt and Lines of Credit

A summary of our long-term debt follows (in thousands):

	December 31, 2006	December 31, 2005
Fixed rate notes due 2011	**$ 150,000**	$ 150,000
Term loan due 2005-2009	—	84,363
Other	**540**	740
Subtotal	**150,540**	235,103
Less current portion	**(209)**	(1,045)
Long-term debt, less current portion	**$150,331**	$234,058

The average interest rate for our long-term debt was 8.3% and 7.5% for the years ended December 31, 2006 and 2005, respectively.

2006 AMENDMENTS

On March 31, 2006, we repaid in full our $84.4 million term loan with JPMorgan Chase Bank ("TL"). The TL was paid with a combination of cash on hand and a draw on our revolving credit facility. At that time, we also amended the $175 million revolving credit facility ("RCF") with JPMorgan Chase Bank to reduce the commitment and annual fees and to reduce the floating interest rate by approximately 50 basis points. The interest rate of the amended RCF is LIBOR plus 1.25%. There were no borrowings under the RCF as of December 31, 2006. The amended RCF also includes an "accordion" feature that allows us the opportunity to expand the facility by $50 million. The RCF terminates in February 2010. In connection with the repayment of the TL, we recorded a write-off of unamortized debt issuance costs of $430,000.

2005 CREDIT FACILITY

In February 2005, we amended our bank credit facility with JPMorgan Chase Bank. The Amended and Restated Credit Agreement ("ARCA") provided for a TL of $85 million at a rate of LIBOR plus 2.0% and a RCF of $175 million at a rate of LIBOR plus 2.5%. Commitment fees included an annual fee of $100,000 plus a fee of .375% per annum of the unused RCF, payable quarterly.

Loans under the ARCA are collateralized by substantially all of our assets. Should we generate excess cash flow ("ECF") during a year, as defined in ARCA, an additional principal payment must be made. Based on our results as of and for the year ended December 31, 2005 and 2004, no additional term loan payments have been required.

Also in February 2005, we used proceeds from borrowings under the ARCA ($85 million TL and $3.5 million RCF) plus $54.4 million of our cash balances to retire our previous term loan ($30.5 million), to redeem the entire $110 million aggregate principal amount of our Floating Rate Notes due 2010, to pay $1.1 million prepayment penalty for the Floating Rate Notes and to pay $1.4 million of fees for the ARCA.

2004 CREDIT AGREEMENTS

On February 24, 2004, in conjunction with our acquisition of the VITAS shares not previously owned and to retire our senior notes due 2005 through 2009 , we issued 4 million shares of capital stock in a private placement and borrowed $335 million as follows:

- $150 million from the issuance of privately placed 8.75% senior notes (“Fixed Rate Notes”) due 2011. Semiannual interest payments began in August 2004 and payment of unpaid principal and interest will be due February 2011. The Fixed Rate Notes are unsecured and are effectively subordinated to our secured indebtedness. In the second quarter of 2004, we filed a registration statement covering up to $150 million principal amount of new 8.75% senior notes due 2011 (“New Fixed Rate Notes”). Except for the lack of transfer restrictions, the terms of the New Fixed Rate Notes are substantially identical to those of the Fixed Rate Notes. Pursuant to our exchange offer, all holders of the Fixed Rate Notes exchanged their notes for like principal amounts of the New Fixed Rate Notes.

  Prior to February 24, 2007, up to a maximum of 35% of the principal of the New Fixed Rate Notes may be redeemed under specified circumstances at a price of 108.75% plus accrued interest. After February 24, 2007, the New Fixed Rate Notes may be redeemed, in whole or in part, at redemption prices ranging from 104.375% (beginning on February 24, 2007) to 100% (beginning on February 24, 2010) plus accrued interest.

- $110 million from the issuance of privately placed floating rate senior secured notes (“Floating Rate Notes”) due 2010 which were redeemed in 2005.

- $75 million drawn down under a $135 million secured revolving credit/term loan facility (“2004 Credit Facility”) with JPMorgan Chase Bank. The facility comprised a $35 million term loan and $100 million revolving credit facility, including up to $40 million in letters of credit. This facility was replaced in 2005 with the ARCA.

OTHER

Other long-term debt has arisen from loans in connection with acquisitions of various businesses and properties. Interest rates range from 5% to 8%, and the obligations are due on various dates through December 2009.

The following is a schedule by year of required long-term debt payments as of December 31, 2006 (in thousands):

2007	**$ 209**
2008	**162**
2009	**169**
2010	—
2011	**150,000**
Total long-term debt	**$ 150,540**

During 2006 and 2005, interest totaling $751,000 and $380,000, respectively, was capitalized. Summarized below are the total amounts of interest paid during the years ended December 31 (in thousands):

2006	**$ 16,462**
2005	20,368
2004	17,255

DEBT COVENANTS

Collectively, the ARCA and the New Fixed Rate Notes provide for affirmative and restrictive covenants including, without limitation, requirements or restrictions (subject to exceptions) related to the following:

- use of proceeds of loans,
- restricted payments, including payments of dividends and retirement of stock (permitting $.24 per share dividends so long as the aggregate amount of dividends in any fiscal year does not exceed $7.0 million), with exceptions for existing employee benefit plans and stock option plans,
- mergers and dissolutions,
- sales of assets,
- investments and acquisitions,
- liens,

- transactions with affiliates,
- hedging and other financial contracts,
- restrictions on subsidiaries,
- contingent obligations,
- operating leases,
- guarantors,
- collateral,
- sale and leaseback transactions,
- prepayments of indebtedness,
- maximum annual limit for acquisitions of $80 million (no single acquisition to exceed $50 million),
- maximum annual expenditures for operating leases of $30 million, and
- maximum annual capital expenditures of $30 million.

In addition, the credit agreements provide that the Company will be required to meet minimum net worth requirements, maximum leverage requirements, maximum senior leverage requirements and minimum fixed charge requirements, to be tested quarterly. The ARCA also contains cross-default provisions. We are in compliance with all debt covenants as of December 31, 2006. As of December 31, 2006, we have approximately $141.7 million of unused lines of credit available and eligible to be drawn down under the RCF.

In connection with the February 2005 amendment, we recorded a loss on the extinguishment of debt of $4.0 million that comprised a prepayment penalty of $1.1 million on the Floating Rate Notes and the write-off of $2.9 million of unamortized debt issuance costs for the Floating Rate Notes and the previous term loan. In connection with the February 2004 transaction, we incurred a prepayment penalty of $3.3 million on the senior notes.

14. Other Current Liabilities

At December 31, 2006 and 2005, other current liabilities comprised the following (in thousands):

	December 31,	
	2006	2005
Accrued legal settlements	**$ 1,889**	$ 23,108
Accrued divestiture expenses	**2,612**	3,895
Accrued Medicare Cap estimate	**3,373**	—
Other	**14,810**	18,820
Total other current liabilities	**$ 22,684**	$ 45,823

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, ESOPs, excess benefit plans and other similar plans comprise the following (in thousands):

	For the Years Ended December 31,		
	2006	2005	2004
Compensation cost of ESOPs	**$ —**	$ 1,324	$ 1,811
Pension, profit-sharing and other similar plans	**11,117**	9,004	5,639
Total	**$ 11,117**	$ 10,328	$ 7,450
Dividends on ESOP shares used for debt service	**$ —**	$ 122	$ 129

We previously established two employee stock ownership plans (“ESOPs”) that purchased a total of $56.0 million of our capital stock. Substantially all eligible employees of the Roto-Rooter segment and the Corporate Office participated in the ESOPs. All shares in the ESOP trust were allocated as of December 31, 2005. The ESOP trusts were terminated and participant balances transferred to the retirement plan in the first quarter of 2006.

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. Prior to September 1, 1998, the value of these benefits was invested in shares of our stock and in mutual funds, which were held by grantor trusts. Currently, 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 shareholders' equity. At December 31, 2006, these trusts held 133,315 shares or $2.4 million of our stock (December 31, 2005—133,870 shares or $2.4 million). The diversified assets of our excess benefit and deferred compensation plans, all of which are invested in either company-owned life insurance or various mutual funds, totaled $25.7 million at December 31, 2006 (December 31, 2005—$21.1 million).

16. 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 nine years, and in most cases, we expect that these leases will be renewed or replaced by other leases in the normal course of business. We have no significant capital leases as of December 31, 2006 or 2005.

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, 2006 (in thousands):

2007	**$ 16,761**
2008	**14,261**
2009	**12,473**
2010	**8,299**
2011	**6,062**
After 2011	**9,590**
Total minimum rental payments	**67,446**
Less: minimum sublease rentals	**(572)**
Net minimum rental payments	**$ 66,874**

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

	For the Years Ended December 31,		
	2006	2005	2004
Total rental payments	**$ 16,859**	$ 17,027	$13,569
Less sublease rentals	**(687)**	(1,659)	(1,640)
Net rental expense	**$ 16,172**	$15,368	$11,929

17. Financial Instruments

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

- 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.
- The carrying values of our investment in the Patient Care warrant in 2005 and the Note receivable due from Patient Care are considered to be the best indicator of fair value available. As mentioned in Note 7 above, we recorded an impairment charge of $1.4 million with respect to the Patient Care warrant in September 2006.
- For long-term debt, we calculated the fair value based either on market quotations received from financial institutions or discounted cash flow analysis.

The estimated fair values of our financial instruments are as follows (in thousands):

	December 31,			
	2006		2005	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Other investments—				
Investment in Patient Care warrant	**$ —**	**$ —**	$ 1,445	$ 1,445
Note receivable	**14,701**	**14,701**	12,500	12,500
Total other investments	**$ 14,701**	**$ 14,701**	$ 13,945	$ 13,945
Long-term debt	**$ 150,540**	**$ 155,040**	$235,103	$244,091

18. Earnings Per Share

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

	Income from Continuing Operations			Net Income		
	Income	Shares	Income Per Share	Income	Shares	Income Per Share
2006						
Earnings	**$ 57,722**	**26,118**	**$ 2.21**	**$ 50,651**	**26,118**	**$ 1.94**
Dilutive stock options	**—**	**496**		**—**	**496**	
Nonvested stock awards	**—**	**55**		**—**	**55**	
Diluted earnings	**$ 57,722**	**26,669**	**$ 2.16**	**$ 50,651**	**26,669**	**$ 1.90**
2005						
Earnings	$ 36,228	25,552	$ 1.42	$ 35,817	25,552	$ 1.40
Dilutive stock options	—	666		—	666	
Nonvested stock awards	—	81		—	81	
Diluted earnings	$ 36,228	26,299	$ 1.38	$ 35,817	26,299	$ 1.36
2004						
Earnings	$ 19,095	24,120	$ 0.79	$27,512	24,120	$ 1.14
Dilutive stock options	—	502		—	502	
Nonvested stock awards	—	14		—	14	
Diluted earnings	$ 19,095	24,636	$ 0.78	$27,512	24,636	$ 1.12

The impact of the CJSDs was excluded from the above computations in 2004 because it was antidilutive to earnings per share for all periods. All of the remaining CJSDs were either converted or retired as of May 18, 2004. The debentures were convertible into an average of 274,000 shares for the year ended December 31, 2004.

During 2006, 369,850 stock options granted in June 2006 at an exercise price of $51.76 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 2005 and 2004, there were no options outstanding whose exercise price exceeded the average market price for the year.

19. Loans Receivable from Independent Contractors

At December 31, 2006, we had contractual arrangements with 61 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 yellow pages advertising in these areas, provide 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, 2006, is approximately $1.9 million ($2.6 million at December 31, 2005). The exposure to loss is mainly the result of loans given 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, 2006. During 2006, we recorded revenues of $19.2 million (2005—$18.1 million; 2004—$16.4 million) and pretax profits of $6.9 million (2005—$6.0 million; 2004—$5.1 million) from all of our independent contractors.

20. Litigation

We are party to a class action lawsuit filed in the Third Judicial Circuit Court of Madison County, Illinois in June of 2000 by Robert Harris, alleging certain Roto-Rooter plumbing was performed by unlicensed employees. We contested these allegations and believe them without merit. Plaintiff moved for certification of a class of customers in 32 states who allegedly paid for plumbing work performed by unlicensed employees. Plaintiff also moved for partial summary judgment on grounds the licensed apprentice plumber who installed his faucet did not work under the direct personal supervision of a licensed master plumber. On June 19, 2002, the trial judge certified an Illinois-only plaintiffs class and granted summary judgment for the named party Plaintiff on the issue of liability, finding violation of the Illinois Plumbing License Act and the Illinois Consumer Fraud Act through Roto-Rooter's representation of the licensed apprentice as a plumber. The court did not rule on certification of a class in the remaining 31 states. In December 2004, we reached a resolution of this matter with the Plaintiff and accrued $3.1 million as the anticipated cost of settling this litigation. The court approved this settlement in July 2006.

Like other large California employers, our VITAS subsidiary faces allegations of purported class-wide wage and hour violations. It was party to a class action lawsuit filed in the Superior Court of California, Los Angeles County, in April of 2004 by Ann Marie Costa, Ana Jimenez, Mariea Ruteaya and Gracetta Wilson ("Costa"). This case alleged failure to pay overtime wages for hours worked "off the clock" on administrative tasks, including voicemail retrieval, time entry, travel to and from work, and pager response. This case also alleged VITAS failed to provide meal and break periods to a purported class of California nurses, home health aides and licensed clinical social workers. The case also sought payment of penalties, interest, and Plaintiffs' attorney fees. VITAS contested these allegations.

Plaintiff moved for class certification, and VITAS opposed this motion. We reached an agreement with the Plaintiff class in order to avoid the uncertainty of litigation and the diversion of resources and personnel resulting from the litigation. In connection with our acquisition of VITAS in February 2004, we recorded a liability of $2.3 million on VITAS' opening balance sheet for this case. At that time, this represented our best estimate of our exposure in the matter. As a result of the tentative resolution, we recorded a pretax charge of $17.4 million ($10.8 million aftertax) in the fourth quarter of 2005, representing the portion of this settlement not accounted for on VITAS' opening balance sheet. These amounts are inclusive of Plaintiffs' class attorneys' fees and the costs of settlement administration. On June 26, 2006, the court granted final approval of the settlement ($19.9 million).

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 ("Santos"). This case, filed by the Costa case Plaintiffs' counsel, makes similar allegations of 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 likewise seeks payment of penalties, interest and Plaintiffs' attorney fees. VITAS contests these allegations. The lawsuit is in its early stage and we are unable to estimate our potential liability, if any, with respect to these allegations.

Regardless of outcome, defense of litigation adversely affects us through defense costs, diversion of our time and related publicity. In the normal course of business, we are a party to various claims and legal proceedings. We record a reserve for these matters when an adverse outcome is probable and the amount of the potential liability is reasonably estimable.

21. OIG Investigation

On April 7, 2005, we announced the Office of Inspector General ("OIG") for the Department of Health and Human Services served VITAS with civil subpoenas relating to VITAS' alleged failure to appropriately bill Medicare and Medicaid for hospice services. As part of this investigation, the OIG selected medical records for 320 past and current patients from VITAS' three largest programs for review. It also sought policies and procedures dating back to 1998 covering admissions, certifications, recertifications and discharges. During the third quarter of 2005 and again in May 2006, the OIG requested additional information from us. A qui tam complaint has been filed in U.S. District Court for the Southern District of Florida. We are conferring with the U.S. Attorney regarding our defenses to the complaint allegations. The U.S. Attorney has not decided whether to intervene in the qui tam action. We have incurred pretax expense related to complying with OIG requests and defending the litigation of $1.1 million and $637,000 for the years ended December 31, 2006 and 2005, respectively.

The government continues to investigate the complaint's allegations, against which VITAS is presently defending. We are unable to predict the outcome of this matter or the impact, if any, that the investigation may have on the business, results of operations, liquidity or capital resources. Regardless of outcome, responding to the subpoenas and defending the litigation can adversely affect us through defense costs, diversion of our time and related publicity.

22. Related Party Transactions

In October 2004, VITAS entered into a pharmacy services agreement ("Agreement") with Omnicare, Inc. ("OCR") whereby OCR will provide specified pharmacy services for VITAS and its hospice patients in geographical areas served by both VITAS and OCR. The Agreement has an initial term of three years that renews automatically thereafter for one-year terms. Either party may cancel the Agreement at the end of any term by giving written notice at least 90 days prior to the end of said term. In June 2004, VITAS entered into a pharmacy services agreement with excelleRx. The agreement has a one-year term and automatically renews unless either party provides a 90-day written termination notice. Subsequent to June 2004, OCR acquired excelleRx. Under both agreements, VITAS made purchases of $30.4 million , $16.2 million and $344,000 for the years ended December 31, 2006, 2005 and 2004, respectively and has accounts payable of $4.0 million at December 31, 2006. Mr. E. L. Hutton is non-executive Chairman of the Board and a director of the Company and OCR. Mr. Joel F. Gemunder, President and Chief Executive Officer of OCR, Mr. Charles H. Erhart, Jr. and Ms. Sandra Laney are directors of both OCR and the Company. Mr. Kevin J. McNamara, President, Chief Executive Officer and a director of the Company, is a director emeritus of OCR. We believe that the terms of these agreements are no less favorable to VITAS than we could negotiate with an unrelated party.

23. Capital Stock Transactions

In July 2006, we announced a $50 million on-going stock repurchase program. Our previous stock repurchase program approved in February 2000 had remaining authorization of $8 million. For the year ended December 31, 2006, we repurchased 433,580 shares at a weighted average cost per share of $36.01 under the July 2006 and February 2000 programs.

On May 15, 2006, our shareholders approved an amendment to our Certificate of Incorporation increasing the number of authorized shares of capital stock from 40 million shares to 80 million shares.

On March 11, 2005, our Board of Directors approved a 2-for-1 stock split in the form of a 100% stock dividend to shareholders of record at the close of business on April 22, 2005. This stock split was paid May 11, 2005. Under Delaware law, the par value of the capital stock remains $1 per share.

24. Change in Accounting Principle

Effective September 30, 2006, we changed the date of our annual goodwill impairment analysis to October 1. Previously, we performed this annual goodwill impairment test on December 31. We believe this change in accounting principle is preferable because the new date coincides with the Federal government's fiscal year end of September 30 and therefore allows for a better estimation of the Medicare related cash flows of our VITAS business. Medicare pays in excess of 90% of VITAS' revenue. Of the total goodwill recorded as of September 30, 2006, approximately 75% is related to VITAS. Due to the Medicare Cap discussed above, October 1 is the date when cash flows from our hospice programs are most predictable. The change in accounting principle will have no effect on our consolidated financial statements.

UNAUDITED SUMMARY OF QUARTERLY RESULTS

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

For the Year Ended December 31, 2006	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Continuing Operations					
Total service revenues and sales	$243,921	$249,068	$253,695	$271,903	$1,018,587
Gross profit	$ 67,886	$ 69,965	$ 68,296	$ 82,317	$ 288,464
Income from operations	$ 24,004	$ 25,945	$ 23,359	$ 31,671	$ 104,979
Interest expense	(5,345)	(4,300)	(4,081)	(3,742)	(17,468)
Loss from impairment of investment	—	—	(1,445)	—	(1,445)
Loss on extinguishments of debt	(430)	—	—	—	(430)
Other income—net	1,495	524	715	1,914	4,648
Income before income taxes	19,724	22,169	18,548	29,843	90,284
Income taxes	(7,686)	(8,619)	(5,673)	(10,584)	(32,562)
Income from continuing operations (a)	12,038	13,550	12,875	19,259	57,722
Discontinued Operations	177	(708)	(4,914)	(1,626)	(7,071)
Net Income (a)	$ 12,215	$ 12,842	$ 7,961	$ 17,633	$ 50,651
Earnings Per Share (a)					
Income from continuing operations	$ 0.46	$ 0.52	$ 0.49	$ 0.74	$ 2.21
Net income	$ 0.47	$ 0.49	$ 0.30	$ 0.68	$ 1.94
Diluted Earnings Per Share (a)					
Income from continuing operations	$ 0.45	$ 0.50	$ 0.48	$ 0.73	$ 2.16
Net income	$ 0.46	$ 0.48	$ 0.30	$ 0.67	$ 1.90
Average number of shares outstanding					
Earnings per share	26,044	26,201	26,190	26,030	26,118
Diluted earnings per share	26,723	26,846	26,633	26,411	26,669

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Pretax (cost)/benefit:					
Legal expenses incurred in connection with the Office of Inspector General investigation	$ (132)	$ (342)	$ (344)	$ (250)	$ (1,068)
Prepayment penalty and write-off of debt issuance costs related to early extinguishment and refinancing of debt	(430)	—	—	—	(430)
Stock option expense	—	(18)	(597)	(596)	(1,211)
Costs related to class action litigation	—	—	(272)	—	(272)
Loss from impairment of investment	—	—	(1,445)	—	(1,445)
Other	—	—	—	467	467
Total	$ (562)	$ (360)	$ (2,658)	$ (379)	$ (3,959)
Aftertax (cost)/benefit:					
Legal expenses incurred in connection with the Office of Inspector General investigation:	$ (82)	$ (212)	$ (213)	$ (155)	$ (662)
Prepayment penalty and write-off of debt issuance costs related to early extinguishment and refinancing of debt	(273)	—	—	—	(273)
Tax adjustments and settlements from prior year returns	—	—	1,791	324	2,115
Stock option expense	—	(12)	(379)	(378)	(769)
Costs related to class action litigation	—	—	(169)	—	(169)
Loss from impairment of investment	—	—	(918)	—	(918)
Other	—	—	—	296	296
Total	$ (355)	$ (224)	$ 112	$ 87	$ (380)

UNAUDITED SUMMARY OF QUARTERLY RESULTS

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

For the Year Ended December 31, 2005	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Continuing Operations					
Total service revenues and sales	$216,068	$223,271	$230,892	$245,739	$915,970
Gross profit	$ 64,842	$ 64,035	$ 67,476	$ 75,141	$ 271,494
Income from operations	$ 21,837	$ 20,941	$ 23,880	$ 10,111	$ 76,769
Interest expense	(5,835)	(5,039)	(5,147)	(5,243)	(21,264)
Loss on extinguishment of debt	(3,971)	—	—	—	(3,971)
Other income—net	727	601	1,315	479	3,122
Income before income taxes	12,758	16,503	20,048	5,347	54,656
Income taxes	(5,312)	(6,016)	(5,753)	(1,347)	(18,428)
Income from continuing operations (a)	7,446	10,487	14,295	4,000	36,228
Discontinued Operations	670	(1,602)	337	184	(411)
Net Income (a)	$ 8,116	$ 8,885	$ 14,632	$ 4,184	$ 35,817
Earnings Per Share (a)					
Income from continuing operations	$ 0.30	$ 0.41	$ 0.56	$ 0.15	$ 1.42
Net income	$ 0.32	$ 0.35	$ 0.57	$ 0.16	$ 1.40
Diluted Earnings Per Share (a)					
Income from continuing operations	$ 0.29	$ 0.40	$ 0.54	$ 0.15	$ 1.38
Net income	$ 0.31	$ 0.34	$ 0.55	$ 0.16	$ 1.36
Average number of shares outstanding					
Earnings per share	25,152	25,489	25,719	25,858	25,552
Diluted earnings per share	25,910	26,214	26,401	26,590	26,299

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Pretax (cost)/benefit:					
Long-term incentive plan payout	$ (1,109)	$ (1,837)	$ —	$ (2,531)	$ (5,477)
Legal expenses incurred in connection with the Office of Inspector General investigation	—	(254)	(310)	(73)	(637)
Adjustment to casualty insurance related to prior periods experience	1,663	—	—	—	1,663
Prepayment penalty and write-off of debt issuance costs related to early extinguishment and refinancing of debt	(3,971)	—	—	—	(3,971)
Adjustment of transaction-related expenses of the VITAS acquisition	—	671	130	158	959
Costs related to class action litigation	—	—	—	(17,350)	(17,350)
Cost of accelerating vesting of stock options	(215)	—	—	—	(215)
Total	$ (3,632)	$ (1,420)	$ (180)	$(19,796)	$(25,028)
Aftertax (cost)/benefit:					
Long-term incentive plan payout	$ (695)	$ (1,152)	$ —	$ (1,587)	$ (3,434)
Legal expenses incurred in connection with the Office of Inspector General investigation:	—	(160)	(192)	(45)	(397)
Adjustment to casualty insurance related to prior periods experience	1,014	—	—	—	1,014
Prepayment penalty and write-off of debt issuance costs related to early extinguishment and refinancing of debt	(2,523)	—	—	—	(2,523)
Tax adjustments and settlements from prior year returns	—	—	1,787	174	1,961
Adjustment of transaction-related expenses of the VITAS acquisition	—	671	130	158	959
Costs related to class action litigation	—	—	—	(10,757)	(10,757)
Cost of accelerating vesting of stock options	(137)	—	—	—	(137)
Total	$ (2,341)	$ (641)	$ 1,725	$ (12,057)	$ (13,314)

SELECTED FINANCIAL DATA

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

	2006	2005	2004(b)	2003	2002
Summary of Operations					
Continuing operations (a)					
Service revenues and sales	**$1,018,587**	$915,970	$ 734,877	$260,776	$253,687
Gross profit (excluding depreciation)	**288,464**	271,494	228,107	113,958	112,741
Depreciation	**16,775**	16,150	14,542	9,519	10,424
Amortization	**5,255**	4,922	3,779	302	152
Income from operations (b)	**104,979**	76,769	57,954	8,774	17,141
Income from continuing operations (c)	**57,722**	36,228	19,095	11,188	11,107
Net income/(loss) (c)	**50,651**	35,817	27,512	(3,435)	(2,545)
Earnings/(loss) per share					
Income from continuing operations	**$ 2.21**	$ 1.42	$ 0.79	$ 0.56	$ 0.56
Net income/(loss)	**1.94**	1.40	1.14	(0.17)	(0.13)
Average number of shares outstanding	**26,118**	25,552	24,120	19,848	19,716
Diluted earnings/ (loss) per share					
Income from continuing operations	**$ 2.16**	$ 1.38	$ 0.78	$ 0.56	$ 0.56
Net income/ (loss)	**1.90**	1.36	1.12	(0.17)	(0.13)
Average number of shares outstanding	**26,669**	26,299	24,636	19,908	19,770
Cash dividends per share	**$ 0.24**	$ 0.24	$ 0.24	$ 0.24	$ 0.23
Financial Position—Year-End					
Cash and cash equivalents	**$ 29,274**	$ 57,133	$ 71,448	$ 50,688	$ 37,570
Working capital/(deficit)	**(3,951)**	35,355	28,439	32,778	20,075
Current ratio	**0.98**	1.21	1.17	1.48	1.28
Properties and equipment, at cost less accumulated depreciation	**$ 70,140**	$ 65,155	$ 55,796	$ 31,440	$ 30,912
Total assets	**793,287**	839,103	825,566	328,458	337,822
Long-term debt	**150,331**	234,058	279,510	25,931	25,348
Convertible junior subordinated debentures	**—**	—	—	14,126	14,186
Stockholders' equity	**421,361**	384,175	332,092	192,693	198,422
Other Statistics—Continuing Operations					
Capital expenditures	**$ 21,987**	$ 25,734	$ 18,290	$ 10,381	$ 8,440
Number of employees	**11,621**	10,881	9,822	2,894	2,736

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

(b) The financial results of VITAS are included in the consolidated results of the Company beginning on February 24, 2004, the date the Company acquired the remaining 63% of VITAS it did not own, bringing its ownership in VITAS to 100%.

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

	2006	2005	2004	2003	2002
Aftertax benefit/(cost):					
Tax adjustments and settlements from prior year returns	**$ 2,115**	$ 1,961	$ 1,620	$ —	$ —
Loss on impairment of investment	**(918)**	—	—	—	(780)
Stock option expense	**(769)**	(137)	—	—	—
Expenses incurred in connection with the Office of Inspector General investigation	**(662)**	(397)	—	—	—
Loss on extinguishment of debt	**(273)**	(2,523)	(2,030)	—	—
Costs related to class action litigation	**(169)**	(10,757)	(1,897)	—	—
Long-term incentive plan payout	**—**	(3,434)	(5,437)	—	—
Adjustment to casualty insurance related to prior periods experience	**—**	1,014	—	—	—
Adjustment of transaction-related expenses of the VITAS acquisition	**—**	959	(222)	—	—
Equity in earnings/(loss) of VITAS	**—**	—	(4,105)	922	—
Expenses related to debt registration	**—**	—	(727)	—	—
Capital gains on sales of investments	**—**	—	—	3,351	775
Severance costs	**—**	—	—	(2,358)	—
Other	**296**	—	—	—	—
Total	**$ (380)**	$ (13,314)	$(12,798)	$ 1,915	$ (5)

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, 2006, 2005 and 2004 (in thousands except per share amounts):

	2006	2005	2004
Consolidated service revenues and sales	**$1,018,587**	$915,970	$734,877
Consolidated income from continuing operations	**$ 57,722**	$ 36,228	$ 19,095
Diluted EPS from continuing operations	**$ 2.16**	$ 1.38	$ 0.78

2006 Versus 2005

The increase in consolidated service revenues and sales from 2005 to 2006 was driven by a 13% increase at VITAS and a 7% increase at Roto-Rooter. The increase at VITAS was the result of an increase in average daily census (“ADC”) of 10% and the annual Medicare price increase of 3.5% offset by mix of care. The increase at Roto-Rooter was mainly driven by a 1% increase in jobs, an approximate 4.5% price increase and a shift in job mix. Consolidated income from continuing operations and diluted EPS from continuing operations increased in 2006 as a result of the higher service revenues and sales, which allowed us to further leverage our current cost structure. The 2005 results were negatively impacted by a $17.4 million pretax charge ($10.8 million aftertax) at VITAS for the settlement of a class action lawsuit.

2005 Versus 2004

The increase in consolidated service revenues and sales from 2004 to 2005 was driven by a 35% increase at VITAS and a 7% increase at Roto-Rooter. The increase at VITAS was the result of an increase in ADC of 15%, the annual Medicare price increase of approximately 3% and a full year of revenue in 2005 versus a partial year in 2004 due to our acquisition of VITAS in February 2004. The increase at Roto-Rooter was driven by an increase in plumbing revenue of 10% and an increase in sewer and drain cleaning revenue of 5%. Consolidated income from continuing operations and diluted EPS from continuing operations increased in 2005 as a result of the higher service revenues and sales, which allowed us to further leverage our current cost structure. The increase was partially offset by a $17.4 million pretax charge ($10.8 million aftertax) at VITAS for the anticipated settlement of a class action lawsuit.

Other Developments

Effective January 1, 2006, we adopted the provisions of SFAS 123(R) which establishes accounting for stock-based compensation for employees. Under SFAS 123(R), 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. We previously applied Accounting Principles Board Opinion No. 25 and provided the pro-forma disclosures required by Statement of Financial Accounting Standards No. 123. We elected to adopt the modified prospective transition method as provided by SFAS 123(R). Accordingly, previously reported financial statement amounts have not been restated. We have determined that the Black-Scholes option-pricing model to calculate the fair value of our stock options is appropriate in the circumstances. We also used the Black-Scholes model for purposes of the pro-forma disclosures under SFAS 123. There was no material impact on our financial position, results of operations or cash flows as a result of the adoption of SFAS 123(R).

Effective September 30, 2006, we changed the date of our annual goodwill impairment analysis to October 1. Previously, we performed this annual goodwill impairment test on December 31. We believe this change in accounting principle is preferable because the new date coincides with the Federal government’s fiscal year end of September 30 and therefore allows for a better estimation of the Medicare related cash flows of our VITAS business. Medicare pays in excess of 90% of VITAS’ revenue. Of the total goodwill recorded as of September 30, 2006, approximately 75% is related to

VITAS. Due to the Medicare Cap discussed in Results of Operations, October 1 is the date when cash flows from our hospice programs are most predictable. The change in accounting principle will have no effect on our consolidated financial statements.

In September 2006, our Board of Directors approved and we announced our intention to exit the hospice market in Phoenix, Arizona. Although we were successful in growing admissions of terminally ill patients, our growth was primarily patients who reside in assisted living settings. Patients residing in these types of facilities tend to exit curative care and enter into hospice care relatively early in their terminal diagnosis. The Medicare Cap limits payment for hospice care when a significant portion of the patient census enters into hospice early in their terminal diagnosis. Although we have, on average, relatively short average and median lengths of stay in the majority of our programs, all programs are measured separately and cannot be considered in the aggregate of programs under common control. Due to these billing limitations, we had experienced significant operating losses at this program. As a result of our announcement, we performed interim impairment tests of our long-lived assets of the Phoenix operation as of September 30, 2006 in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." An impairment charge of $2.4 million was recorded for the referral network intangible asset and fixed assets during the third quarter of 2006. The sale was completed in November 2006. The acquiring corporation purchased the substantial majority of assets of the Phoenix program for $2.5 million.

LIQUIDITY AND CAPITAL RESOURCES

Significant factors affecting our cash flows during 2006 and financial position at December 31, 2006 include the following:

- Our continuing operations generated cash of $89.5 million;
- We repaid approximately $84.6 million in long-term debt;
- We repurchased our stock using cash of $19.9 million; and
- We spent $22.0 million on capital expenditures.

The ratio of total debt to total capital was 26.3% at December 31, 2006 compared with 38.0% at December 31, 2005. Our current ratio was 1.0 and 1.2 at December 31, 2006 and 2005, respectively. The change in these ratios from 2005 to 2006 relates mainly to our use of cash to repay long-term debt.

Our current credit agreements restrict annual payments for dividends, stock repurchases, acquisitions and capital expenditures. We had $141.7 million of unused eligible lines of credit at December 31, 2006. We believe our cash flow from operating activities and our unused eligible lines of credit are sufficient to fund our business in the near term.

CASH FLOW

Our cash flows for 2006, 2005 and 2004 are summarized as follows (in millions):

	For the Years Ended December 31,		
	2006	2005	2004
Net cash provided by operating activities	**$ 98.6**	$ 80.0	$ 92.9
Capital expenditures	**(22.0)**	(25.7)	(18.3)
Operating cash excess after capital expenditures	**76.6**	54.3	74.6
Repayment of long-term debt	**(84.6)**	(141.6)	(96.9)
Purchase of treasury stock	**(19.9)**	(7.4)	(2.7)
Dividends paid	**(6.3)**	(6.2)	(5.7)
Business combinations	**(4.1)**	(6.2)	(343.1)
Proceeds from issuance of long-term debt, net of costs	**(0.2)**	83.2	280.6
Return/(payment) of VITAS merger deposit	**—**	—	10.0
Net uses from sale of discontinued operations	**(0.9)**	(9.4)	(0.8)
Issuance of capital stock, net of costs	**3.9**	12.3	98.8
Other—net	**7.6**	6.7	6.0
(Decrease)/increase in cash and cash equivalents	**$ (27.9)**	$ (14.3)	$ 20.8

COMMITMENTS AND CONTINGENCIES

In connection with the sale of DuBois Chemicals, Inc. (“DuBois”) in 1991, we provided allowances and accruals relating to several long-term costs, including income tax matters, lease commitments and environmental costs. Also, in conjunction with the sales of The Omnia Group (“Omnia”) and National Sanitary Supply Company in 1997, the sale of Cadre Computer Resources, Inc. (“Cadre Computer”) in 2001 and the sale of Service America Network Inc. (“Service America”) in 2005, we provided long-term allowances and accruals relating to costs of severance arrangements, lease commitments and income tax matters. Additionally, we retained liability for Service America’s casualty insurance claims that were incurred prior to the disposal date. In connection with the sale of our Phoenix operation in November 2006, we have accrued an estimate of our total exposure for the Medicare Cap through the date of sale. In the aggregate, we believe these allowances and accruals are adequate as of December 31, 2006. Based on reviews of our environmental-related liabilities under the DuBois sale agreement, we have estimated our remaining liability to be $3.5 million. As of December 31, 2006, we are contingently liable for additional cleanup and related costs up to a maximum of $14.9 million, for which no provision has been recorded in accordance with the applicable accounting guidance.

On September 28, 2006, we announced a preliminary settlement in regard to litigation related to the 2002 divestiture of our Patient Care business segment. In connection with the sale of Patient Care in 2002, $5.0 million of the cash purchase price was placed in escrow pending collection of third-party payer receivables on Patient Care’s balance sheet at the sale date. As of the settlement date, $4.2 million had been returned and the remainder was being withheld pending the settlement of certain third-party payer claims. Prior to the settlement, we had a long-term receivable from Patient Care of $12.5 million. We also had current accounts receivable from Patient Care for the post-closing balance sheet valuation and for expenses paid by us after closing on Patient Care’s behalf of $3.4 million. We were in litigation with Patient Care over the collection of these current amounts and their allegations that our acquisition of VITAS violated a non-compete covenant in the sales agreement. We also have a warrant to purchase 2% of Patient Care’s common stock that we recorded as a $1.4 million investment.

We settled this case in October 2006. We agreed to forgive $1.2 million of the current receivable related to the post-closing balance sheet valuation and convert the remaining amount into debt secured by a promissory note with the same terms as the $12.5 million long-term receivable. We have incurred additional costs related to the settlement of $1.1 million for additional insurance and legal costs related to workers’ compensation claims incurred prior to the sale. The after tax charge related to these amounts of $1.5 million has been recorded as discontinued operations. As a result of financial information received during the negotiations, we determined that the value of the warrants has been permanently impaired and have recorded a pretax impairment charge of $1.4 million. This charge is included in income from continuing operations on the statement of income.

Our various loan agreements and guarantees of indebtedness as of December 31, 2006 contain certain restrictive covenants. In addition, certain agreements contain cross-default provisions. We are in compliance with all of the covenants at December 31, 2006 and anticipate continued compliance throughout 2007.

We are party to a class action lawsuit filed in the Third Judicial Circuit Court of Madison County, Illinois in June of 2000 by Robert Harris, alleging certain Roto-Rooter plumbing was performed by unlicensed employees. We contested these allegations and believe them without merit. Plaintiff moved for certification of a class of customers in 32 states who allegedly paid for plumbing work performed by unlicensed employees. Plaintiff also moved for partial summary judgment on grounds the licensed apprentice plumber who installed his faucet did not work under the direct personal supervision of a licensed master plumber. On June 19, 2002, the trial judge certified an Illinois-only plaintiffs class and granted summary judgment for the named party Plaintiff on the issue of liability, finding violation of the Illinois Plumbing License Act and the Illinois Consumer Fraud Act through Roto-Rooter’s representation of the licensed apprentice as a plumber. The court did not rule on certification of a class in the remaining 31 states. In December 2004, we reached a resolution of this matter with the Plaintiff and we accrued $3.1 million as the anticipated cost of settling this litigation. The court approved this settlement in July 2006.

Like other large California employers, our VITAS subsidiary faces allegations of purported class-wide wage and hour violations. It was party to a class action lawsuit filed in the Superior Court of California, Los Angeles County, in April of 2004 by Ann Marie Costa, Ana Jimenez, Mariea Ruteaya and Gracetta Wilson (“Costa”). This case alleged failure to pay overtime wages for hours worked “off the clock” on administrative tasks, including voicemail retrieval, time entry, travel to and from work, and pager response. This case also alleged VITAS failed to provide meal and break periods to a purported class of California nurses, home health aides and licensed clinical social workers. The case also sought payment of penalties, interest, and Plaintiffs’ attorney fees. VITAS contested these allegations.

Plaintiff moved for class certification, and VITAS opposed this motion. We reached an agreement with the Plaintiff class in order to avoid the uncertainty of litigation and the diversion of resources and personnel resulting from the litigation. In connection with our acquisition of VITAS in February 2004, we recorded a liability of $2.3 million on VITAS’ opening balance sheet for this case. At that time, this represented our best estimate of our exposure in the matter. As a result of the tentative resolution, we recorded a pretax charge of $17.4 million ($10.8 million aftertax) in the fourth quarter of 2005, representing the portion of this settlement not accounted for on Vitas’ opening balance sheet. These amounts are inclusive of Plaintiffs’ class attorneys’ fees and the costs of settlement administration. On June 26, 2006, the court granted final approval of the settlement ($19.9 million).

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 ("Santos"). This case, filed by the Costa case Plaintiffs' counsel, makes similar allegations of 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 likewise seeks payment of penalties, interest and Plaintiffs' attorney fees. VITAS contests these allegations. The lawsuit is in its early stage and we are unable to estimate our potential liability, if any, with respect to these allegations.

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

On April 7, 2005, we announced the Office of Inspector General ("OIG") for the Department of Health and Human Services served VITAS with civil subpoenas relating to VITAS' alleged failure to appropriately bill Medicare and Medicaid for hospice services. As part of this investigation, the OIG selected medical records for 320 past and current patients from VITAS' three largest programs for review. It also sought policies and procedures dating back to 1998 covering admissions, certifications, recertifications and discharges. During the third quarter of 2005 and again in May 2006, the OIG requested additional information from us. A qui tam complaint has been filed in U.S. District Court for the Southern District of Florida. We are conferring with the U.S. Attorney regarding our defenses to the complaint allegations. The U.S. Attorney has not decided whether to intervene in the qui tam action. We have incurred pretax expense related to complying with OIG requests and defending the complaint of $1.1 million and $637,000 for the years ended December 31, 2006 and 2005, respectively.

The government continues to investigate the complaint's allegations, against which VITAS is presently defending. We are unable to predict the outcome of this matter or the impact, if any, that the investigation may have on the business, results of operations, liquidity or capital resources. Regardless of outcome, responding to the subpoenas and defending the complaint 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, 2006 (in thousands):

	Total	Less than 1 year	1-3 Years	4 -5 Years	After 5 Years
Long-term debt obligations, excluding interest (a)	$ 150,540	$ 209	$ 331	$ 150,000	$ —
Operating lease obligations	67,446	16,761	26,734	14,361	9,590
Severance obligations	1,043	581	231	231	—
Obligations of discontinued operations	16,348	13,735	1,895	718	—
Purchase obligations (b)	49,744	49,744	—	—	—
Other current obligations (c)	35,990	35,990	—	—	—
Other long-term obligations (d)	27,578	—	1,032	1,032	25,514
Total contractual cash obligations	$348,689	$117,020	$ 30,223	$166,342	$ 35,104

(a) Our interest obligation on our long-term debt is approximately $13.1 million per year for each of the next 5 years.

(b) Purchase obligations primarily consist of accounts payable at December 31, 2006.

(c) Other current obligations consist of accrued salaries and wages at December 31, 2006.

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

Chemed Corporation and Subsidiary Companies

RESULTS OF OPERATIONS

2006 Versus 2005 – Consolidated Results

Set forth below are the year-to-year changes in the components of the statement of operations relating to continuing operations for 2006 versus 2005 (in thousands, except percentages):

	Increase/(Decrease)	
	Amount	Percent
Service revenues and sales		
VITAS	$ 80,459	13%
Roto-Rooter	22,158	7
Total	102,617	11
Cost of services provided and goods sold	85,647	13
Selling, general and administrative expenses	3,921	2
Depreciation	625	4
Amortization	333	7
Other expenses	(16,119)	(98)
Income from operations	28,210	37
Interest expense	3,796	(18)
Loss on impairment of investment	(1,445)	—
Loss on extinguishment of debt	3,541	(89)
Other income —net	1,526	49
Income before income taxes	35,628	65
Income taxes	(14,134)	77
Income from continuing operations	$ 21,494	59

Our service revenues and sales for the year ended December 31, 2006 increased $102.6 million, or 11%, versus revenues for the year ended December 31, 2005. The VITAS segment accounted for $80.4 million of this increase and Roto-Rooter accounted for the remaining $22.2 million of the increase.

The increase in VITAS' revenues for 2006 versus 2005 is attributable to the following (dollars in thousands):

	Amount	Percent
Routine homecare	$65,632	15%
Continuous care	14,679	14
General inpatient	4,046	5
Medicare cap	(3,898)	—
Total revenues	$ 80,459	13

The revenue increase for VITAS includes the annual increase in the Medicare reimbursement rate of approximately 3% to 4%. In addition, the Average Daily Census ("ADC") for routine homecare, continuous care and general inpatient increased 10.7%, 8.2% and 1.0% respectively from 2005. ADC is a key measure we use to monitor volume growth in our hospice programs. Changes in total program admissions and average length of stay for our patients are the main drivers of changes in ADC. The increases discussed above were offset by a reduction in revenue of $3.9 million related to the Medicare Cap. The components of the pretax charges are as follows (in thousands):

	Phoenix	All Other	Total
2007 measurement period	$ —	$ 470	$ 470
2006 measurement period	7,260	2,903	10,163
2005 measurement period	671	525	1,196
Total	$ 7,931	$ 3,898	$11,829

The amounts related to the Phoenix program are included in discontinued operations. Charges for the 2005 measurement period relate to prior year billing limitations resulting from the fiscal intermediary reallocating admissions for deceased Medicare patients who received hospice care from multiple providers. The amounts for the 2006 and 2007 measurement periods are estimates made by management based upon Medicare admissions and Medicare revenue in each program.

The increase in Roto-Rooter's service revenues and sales for 2006 versus 2005 is attributable to the following (in thousands):

	Amount	Percent
Plumbing	$ 10,107	8%
Sewer and drain cleaning	10,420	8
Other	1,631	4
Total revenues	$22,158	7

Plumbing revenues for 2006 increased from 2005 due to a 7% increase in the average price per job and a 1% increase in the number of jobs performed. The increase in the average price per job reflects a combination of price increases coupled with our focus on larger commercial jobs. Our average price for a commercial plumbing job is approximately 36% higher than the average price for a residential plumbing job. Sewer and drain cleaning revenues for 2006 increased from 2005 due to a 7% increase in the average price per job and a 1% increase in the number of jobs performed. The increase in the average price per job reflects a combination of price increases coupled with our focus on larger commercial jobs. Our average price for a commercial sewer and drain cleaning job is approximately 37% higher than the average price for a residential plumbing job. The increase in other revenues is attributable primarily to increases in independent contractor operations.

The consolidated gross margin was 28.3% in 2006 versus 29.6% in 2005. On a segment basis, VITAS' gross margin was 20.3% in 2006 and 21.7% in 2005. The Medicare Cap accounts for approximately 0.6% of the decrease in VITAS' gross margin. The remaining difference is attributable to increased labor costs. Given the historic difficulty in hiring and retaining qualified healthcare professionals, management continued to build manpower in expectation of future increases in admissions and ADC. Additionally, some of our fastest growing hospice programs are located in areas with a high cost of living, which increases our overall average labor cost per patient day served. Roto-Rooter's gross margin was 45.9% in 2006 and 46.2% in 2005.

Selling, general and administrative expenses ("SG&A") for 2006 increased $3.9 million (2.5%) as summarized below (in thousands):

Increase in selling expenses	$ 2,007
Increase in general and administrative expenses	1,914
Total increase	$ 3,921

The increase in selling expenses is mainly attributable to an increase in advertising costs at Roto-Rooter. The increase in general and administrative expenses is caused mainly by salary increases and the impact of expensing stock options beginning in 2006 ($1.2 million) offset by a decrease in LTIP expenses of $5.5 million.

Other expenses decreased $16.1 million mainly due to the impact of the settlement of a class action lawsuit at VITAS in 2005.

Income from operations for 2006 increased $28.2 million (37%) versus 2005 as summarized below (in thousands):

Increase in gross margin	$ 16,970
Increase in SG&A expenses, depreciation, and amortization	(4,879)
Cost in 2005 of settling VITAS class action litigation	17,350
All other	(1,231)
Total increase	$ 28,210

Interest expense decreased $3.8 million (18%) from 2005 to 2006 mainly due to the repayment of approximately $85 million in long-term debt in March 2006. In the third quarter of 2006, we recorded a $1.4 million impairment charge related to our investment in the warrants of Patient Care as further discussed in the commitments and contingencies section above.

Our effective income tax rate was 36.1% in 2006 versus 33.7% in 2005. The increase in our effective tax rate relates to the tax adjustments required upon expiration of certain statutes, of $2.1 million in 2006 and $2.0 million in 2005. While the dollar amounts are consistent between years, the 2005 amount is a larger percentage of pretax income and thus has a larger impact on reducing the overall rate for 2005.

Income from continuing operations increased $21.5 million (59%) from 2005 to 2006. Income from continuing operations for both periods include the following after tax adjustments that increased/(reduced) after tax earnings (in thousands):

	2006	2005
VITAS		
Costs associated with the OIG investigation	**$ (662)**	$ (397)
Costs of class action litigation	**(169)**	(10,757)
Roto-Rooter		
Tax adjustments required upon expiration of statutes	**1,251**	1,126
Favorable adjustment to casualty insurance	**—**	1,014
Corporate		
Stock option expense	**(769)**	(137)
Long-term incentive compensation	**—**	(3,434)
VITAS transaction expense adjustments	**—**	959
Impairment of Patient Care warrants	**(918)**	—
Tax adjustments required upon expiration of statutes	**864**	835
Loss on extinguishment of debt	**(273)**	(2,523)
Other	**296**	—
Total	**$ (380)**	$ (13,314)

Income/(loss) from discontinued operations for 2006, 2005 and 2004 follows (in thousands):

	For the Years Ended December 31,		
	2006	2005	2004
VITAS Phoenix	**$ (4,872)**	$ 1,477	$ 91
Service America	**(32)**	(1,813)	8,559
Adjustment to accruals of operations discontinued in prior years	**(2,167)**	(75)	(233)
Income/(loss) from discontinued operations	**$ (7,071)**	$ (411)	$ 8,417

In September 2006, our Board of Directors approved and we announced our intention to exit the hospice market in Phoenix, Arizona. As a result of our announcement, we performed interim impairment tests of our long-lived assets of the Phoenix operation as of September 30, 2006 in accordance with Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” An impairment charge of $2.4 million was recorded for the referral network intangible asset and fixed assets during the third quarter of 2006. The sale was completed in November 2006. The acquiring corporation purchased the substantial majority of assets of the Phoenix program for $2.5 million.

The disposal of Service America was completed in May 2005. The loss on disposal of Service America in 2005 arises from the finalization of asset and liability values and related tax benefits resulting from the consummation of the sale transaction. For 2004, the gain for Service America includes an estimated tax benefit on the disposal of approximately $14.2 million, primarily due to the recognition of non-deductible goodwill impairment losses in prior years.

The adjustments to accruals related to operations discontinued in prior years primarily include the Patient Care settlement in 2006, favorable adjustments to accruals for note receivable losses on the sale of Cadre Computer (discontinued in 2001) and unfavorable adjustments to accruals related to the sale of DuBois in 1991. Adjustments to the DuBois accruals relate to environmental liabilities we retained upon the sale of DuBois in 1991. We believe amounts accrued are reasonable under the circumstances, but due to the nature of the liabilities, we could be required to increase the accrual in future years to cover additional charges.

2006 Versus 2005 – Segment Results

The change in net income for 2006 versus 2005 is due to (dollars in thousands):

	Increase/(Decrease)	
	Amount	Percent
VITAS	$ 14,913	45%
Roto-Rooter	4,828	17
Corporate	1,753	7
Discontinued operations	(6,660)	(1,620)
Total increase	$ 14,834	41

2005 Versus 2004 – Consolidated Results

Set forth below are the year-to-year changes in the components of the statement of operations relating to continuing operations for 2005 versus 2004 (in thousands, except percentages):

	Increase/(Decrease)	
	Amount	Percent
Service revenues and sales		
VITAS	$160,366	35%
Roto-Rooter	20,727	7
Total	181,093	25
Cost of services provided and goods sold	137,706	27
Selling, general and administrative expenses	10,198	7
Depreciation	1,608	11
Amortization	1,143	30
Other expenses	11,623	244
Income from operations	18,815	32
Interest expense	(106)	1
Loss on extinguishment of debt	(641)	19
Other income —net	(348)	(10)
Income before income taxes	17,720	48
Income taxes	(4,692)	34
Equity in loss of affiliate	4,105	(100)
Income from continuing operations	$ 17,133	90

Our service revenues and sales for the year ended December 31, 2005 increased $181.1 million, or 25%, versus revenues for the year ended December 31, 2004. The VITAS segment, acquired in February 2004, accounted for $160.4 million of this increase and Roto-Rooter accounted for the remaining $20.7 million of the increase.

The increase in VITAS' revenues for 2005 versus 2004 is attributable to the following (dollars in thousands):

	Amount	Percent
Routine homecare	$110,455	35%
Continuous care	27,748	35
General inpatient	22,163	35
Total revenues	$160,366	35

The revenue increases for VITAS resulted from the annual increase in the Medicare reimbursement rate of approximately 3% and the impact of a full year of revenue in 2005 versus a partial year in 2004 due to our acquisition of VITAS in February 2004. In addition, the Average Daily Census ("ADC") for routine homecare, continuous care and general inpatient increased 16%, 12% and 11% respectively from 2004. ADC is a key measure we use to monitor volume growth in our hospice programs. Changes in total program admissions and average length of stay for our patients are the main drivers of changes in ADC. A comparison of VITAS' 2005 revenues to full year pro-forma revenues for 2004 indicates increases of 20%, 16% and 15%, respectively, for routine homecare, continuous care and general inpatient revenues.

The increase in Roto-Rooter's service revenues and sales for 2005 versus 2004 is attributable to the following (in thousands):

	Amount	Percent
Plumbing	$ 10,983	10%
Sewer and drain cleaning	6,396	5
Other	3,348	8
Total revenues	$ 20,727	7

Plumbing revenues for 2005 increased from 2004 due to a 7% increase in the number of jobs performed and a 3% increase in the average price per job. Sewer and drain cleaning revenues for 2005 increased from 2004 due to a 1% decrease in the number of jobs offset by a 6% increase in the average price per job. The increase in the price per job for both plumbing and sewer and drain cleaning was driven by a shift in job mix from residential to commercial. Generally, commercial jobs produce more revenue on a per job basis. The increase in other revenues is attributable primarily to increases in independent contractor operations.

The consolidated gross margin was 29.6% in 2005 versus 31.0% in 2004. The slight decrease is due to the acquisition of VITAS in February 2004. On a segment basis, VITAS' gross margin was 21.7% in 2005 and 22.2% in 2004. Roto-Rooter's gross margin was 46.2% in 2005 and 45.7% in 2004.

SG&A for 2005 increased $10.2 million (6.9%) versus 2004 due mainly to the acquisition of VITAS in February 2004, as summarized below (in thousands):

Increase in selling expense	$ 1,785
Increase in general and administrative expenses	8,413
Total increase	$ 10,198

Depreciation for 2005 increased $1.6 million, or 11%, versus 2004 primarily as a result of the VITAS acquisition. Similarly, most of the $1.1 million increase in amortization is attributable to the amortization of VITAS' intangible assets, including the referral networks and the covenant not to compete. Other expenses increased $11.6 million due mainly to the settlement of class action litigation at VITAS in 2005.

Income from operations for 2005 increased $18.8 million (32%) versus 2004 as summarized below (in thousands):

Increase in gross margin	$ 43,387
Increase in SG&A expenses, depreciation, and amortization	(12,949)
Cost in 2005 of settling VITAS class action litigation	(17,350)
All other	5,727
Total increase	$ 18,815

Our effective income tax rate was 33.7% in 2005 versus 37.2% in 2004. The decrease in our effective tax rate relates to certain state income tax planning strategies implemented in 2005 and the impact of a full year of VITAS activity.

Income from continuing operations for 2005 increased $17.1 million (90%) versus 2004. Income from continuing operations for both periods include the following after tax adjustments that increased/(reduced) after tax earnings (in thousands):

	2005	2004
VITAS		
Costs associated with the OIG investigation	**$ (397)**	$ —
Costs of class action litigation	**(10,757)**	—
Severance contract settlements	**—**	(1,008)
Roto-Rooter		
Tax adjustments required upon expiration of statutes	**1,126**	630
Favorable adjustment to casualty insurance	**1,014**	—
Cost of class action litigation	**—**	(1,897)
Corporate		
Stock option expense	**(137)**	—
Long-term incentive compensation	**(3,434)**	(5,437)
VITAS transaction expense adjustments	**959**	786
Expenses related to debt registration	**—**	(727)
Tax adjustments required upon expiration of statutes	**835**	990
Equity in loss of VITAS	**—**	(4,105)
Loss on extinguishment of debt	**(2,523)**	(2,030)
Total	**$(13,314)**	$(12,798)

Income/(loss) from discontinued operations for 2005, 2004 and 2003 follows (in thousands):

	For the Years Ended December 31,		
	2005	2004	2003
VITAS Phoenix	**$ 1,477**	$ 91	$ —
Service America	**(1,813)**	8,559	(14,687)
Adjustment to accruals of operations discontinued in prior years	**(75)**	(233)	64
Income/(loss) from discontinued operations	**$ (411)**	$ 8,417	$ (14,623)

The disposal of Service America was completed in May 2005. The loss on disposal of Service America in 2005 arises from the finalization of asset and liability values and related tax benefits resulting from the consummation of the sale transaction. For 2004, the gain for Service America includes an estimated tax benefit on the disposal of approximately $14.2 million, primarily due to the recognition of non-deductible goodwill impairment losses in prior years. For 2003, the loss from Service America includes aftertax impairment charges of $14.4 million. Of this amount, $10.0 million was for goodwill impairment and the remainder was for impairment of computer software and identifiable intangible assets.

The adjustments to accruals related to operations discontinued in prior years primarily include favorable adjustments to accruals for note receivable losses on the sale of Cadre Computer (discontinued in 2001) and unfavorable adjustments to accruals related to the sale of DuBois in 1991. Cadre Computer has been operating profitably since 2001 and is current on all amounts due the Company. As a result, we reduced our allowance to $323,000 at December 31, 2003 and to nil at December 31, 2004. Adjustments to the DuBois accruals relate to environmental liabilities we retained upon the sale of DuBois in 1991. We believe amounts accrued are reasonable under the circumstances, but due to the nature of the liabilities, we could be required to increase the accrual in future years to cover additional charges.

2005 Versus 2004 – Segment Results

The change in net income for 2005 versus 2004 is due to (dollars in thousands):

	Increase/(Decrease)	
	Amount	Percent
VITAS	$ 4,345	15%
Roto-Rooter	7,825	40
Corporate	858	3
Equity in VITAS loss	4,105	100
Discontinued operations	(8,828)	(105)
Total increase	$ 8,305	30

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. 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.

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 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.

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 average 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 we will be required to repay at the end of the measurement year and accrue that amount, which is proportional to the number of months elapsed in the Medicare cap year, as a reduction of patient revenue. Our estimate of the Medicare cap liability is particularly sensitive to allocations made by our fiscal intermediary relative to patient transfers between hospices. We are allocated a percentage of the Medicare cap based on the days a patient spent in our care as compared to the total days a patient spent in hospice care. The allocation cannot be determined until a patient dies.

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. For most of the prior years, the caps for general liability and workers' compensation were between $250,000 and $500,000 per claim. 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 $500,000. For most of the prior years, the caps for workers' compensation were between $250,000 and $500,000 per claim. For VITAS' self-insurance accruals for workers' compensation, we obtained an actuarial valuation of the liability as of February 24, 2004 (the date of acquisition) and as of November 30, 2006 and 2005. The valuation methods used by the actuary are similar to those used internally for our other business units.

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, 2006, by $1.3 million or 3%.

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. Significant judgment is required to determine our provision for income taxes. We are periodically audited by various taxing authorities. We establish liabilities for possible assessments by taxing authorities resulting from exposures including, but not limited to, the deductibility of certain expenses and the tax treatment of acquisitions and divestitures. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe our tax reserves reflect the probable outcome of known contingencies.

Goodwill and Intangible Assets

Identifiable, definite-lived intangible assets arise from purchase business combinations and are amortized using either an accelerated method or the straight-line method over the estimated useful lives of the assets. The selection of an amortization method is based on which method best reflects the economic pattern of usage of the asset. The VITAS trade name is considered to have an indefinite life. Goodwill and the VITAS trade name are tested at least annually for impairment. The valuation of goodwill and the VITAS trade name is dependent upon many factors, some of which are market-driven and beyond our control. The valuation of goodwill and the VITAS trade name indicate that the fair value exceeds the carrying value at October 1, 2006.

Stock-based Compensation Plans

Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123, revised (“SFAS 123(R)”) which establishes accounting for stock-based compensation for employees. Under SFAS 123(R), 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 previously applied Accounting Principles Board Opinion No. 25 and provided the pro-forma disclosures required by Statement of Financial Accounting Standards No. 123. We elected to adopt the modified prospective transition method as provided by SFAS 123(R). Accordingly, we have not restated previously reported financial statement amounts. Other than certain reclassifications, there was no material impact on our financial position, results of operations or cash flows as a result of the adoption of SFAS 123(R).

We estimate the fair value of stock options using the Black-Scholes valuation model, consistent with the provisions of SFAS 123(R), the Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 107 and our prior period pro forma disclosure of net income including stock-based compensation expense. 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.

RECENT ACCOUNTING STATEMENTS

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements” (“SAB 108”). Traditionally, there have been two widely recognized methods for quantifying the effects of financial statement misstatements. The first, called the “rollover” method, focuses primarily on the income statement effect of a misstatement but its use can lead to the accumulation of misstatements on the balance sheet. The other method, the “iron curtain” method, focuses primarily on the balance sheet effect of a misstatement but its use can cause out-of-period adjustments in the income statement.

SAB 108 requires companies to evaluate financial statement misstatements using both methods, referred to as the “dual approach.” An issuer may either restate all periods presented as if the dual approach had always been used or record the cumulative effect of using the dual approach to assets and liabilities with an offsetting adjustment to the opening balance of retained earnings as of January 1, 2006. There was no impact on our financial statements for the adoption of SAB 108.

In September 2006, the FASB issued Statement No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans” (“SFAS 158”). The new standard will require employers to recognize fully the obligations associated with single-employer defined benefit pension, retiree healthcare and other postretirement plans in their financial statements. Under past accounting standards, the funded status of an employer’s postretirement benefit plan (i.e., the difference between the plan assets and obligations) was not always completely reported in the balance sheet. Employers reported an asset or liability that almost always differed from the plan’s funded status because previous accounting standards allowed employers to delay recognition of certain changes in plan assets and obligations that affected the costs of providing such benefits. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006. There was no impact on our financial statements for the adoption of SFAS 158.

In September 2006, the FASB issued Statement No. 157, “Fair Value Measurements ” (“SFAS 157”), which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles (GAAP). It sets a common definition of fair value to be used throughout GAAP. The new standard is designed to make the measurement of fair value more consistent and comparable and improve disclosures about those measures. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating the impact SFAS 157 will have on our financial condition and results of operations.

In September 2006, the FASB issued a staff position related to the accounting for planned major maintenance activities. The staff position sets forth four alternative methods of accounting for planned major maintenance activities but disallowed the accrue-in-advance method. The accrue-in-advance method provides for estimating the cost of major maintenance activities and accruing that cost in advance of the maintenance being performed. The guidance is effective for the first fiscal year beginning after December 15, 2006. There will be no material impact on our financial statements as a result of adopting this staff position.

In July 2006, the FASB issued Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement 109”, which prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return. Upon adoption of FIN 48, the financial statements will reflect expected future tax consequences of such uncertain positions assuming the taxing authorities’ full knowledge of the position and all relevant facts. FIN 48 also revises disclosure requirements and introduces an annual, tabular roll-forward of the unrecognized tax benefits. This interpretation is effective as of the beginning of fiscal years starting after December 15, 2006. We believe that the cumulative effect upon adoption of FIN 48, as of January 1, 2007, will reduce our accrual for uncertain tax positions by approximately $3 million to $5 million. We do not anticipate the adoption of FIN 48 will have a material impact on our 2007 effective tax rate.

Unaudited Supplementary Data

To provide background in analyzing the quarterly operations of the VITAS segment, we are providing the following financial and operating data (in thousands except percentages, days and dollars per day):

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2006	2005	**2006**	2005
OPERATING STATISTICS				
Net revenue (a)				
Homecare	$ 132,082	$ 114,805	$ 492,012	$ 426,380
Inpatient	23,316	22,713	89,882	85,836
Continuous care	31,509	29,012	121,096	106,417
Total before Medicare cap allowance	$ 186,907	$ 166,530	$ 702,990	$ 618,633
Medicare cap allowance	(688)	—	(3,898)	—
Total	$ 186,219	$ 166,530	$ 699,092	$ 618,633
Net revenue as a percent of total before Medicare cap allowance				
Homecare	70.6%	69.0%	70.0%	68.9%
Inpatient	12.5	13.6	12.8	13.9
Continuous care	16.9	17.4	17.2	17.2
Total before Medicare cap allowance	100.0	100.0	100.0	100.0
Medicare cap allowance	(0.4)	—	(0.6)	—
Total	99.6%	100.0%	99.4%	100.0%
Average daily census ("ADC") (days)				
Homecare	6,636	5,834	6,333	5,578
Nursing home	3,567	3,413	3,501	3,308
Routine homecare	10,203	9,247	9,834	8,886
Inpatient	411	419	411	407
Continuous care	560	544	555	513
Total	11,174	10,210	10,800	9,806
Total admissions	13,291	12,380	52,736	49,985
Total discharges	13,199	12,482	51,552	48,876
Average length of stay (days)	75.7	70.0	71.9	67.4
Median length of stay (days)	14.0	13.0	13.0	12.0
ADC by major diagnosis				
Neurological	33.7%	32.5%	33.4%	32.1%
Cancer	19.7	21.0	20.2	21.3
Cardio	14.7	14.9	14.8	15.0
Respiratory	7.0	7.0	7.1	7.1
Other	24.9	24.6	24.5	24.5
Total	100.0%	100.0%	100.0%	100.0%
Admissions by major diagnosis				
Neurological	19.8%	19.3%	19.8%	18.9%
Cancer	35.3	37.5	35.5	36.8
Cardio	12.7	12.4	13.1	13.2
Respiratory	7.2	6.7	7.3	7.1
Other	25.0	24.1	24.3	24.0
Total	100.0%	100.0%	100.0%	100.0%
Direct patient care margins (b)				
Routine homecare	49.7%	50.9%	49.0%	50.2%
Inpatient	19.4	23.6	20.0	22.7
Continuous care	17.0	20.4	18.2	18.9
Homecare margin drivers (dollars per patient day)				
Labor costs	$ 49.72	$ 47.15	$ 49.38	$ 46.12
Drug costs	8.17	7.25	8.12	7.55
Home medical equipment	5.81	5.44	5.63	5.47
Medical supplies	2.28	2.11	2.17	2.15
Inpatient margin drivers (dollars per patient day)				
Labor costs	$ 261.55	$ 239.50	$ 259.25	$ 240.89
Continuous care margin drivers (dollars per patient day)				

Labor costs	$ 486.46	$ 442.28	$ 468.13	$ 441.95
Bad debt expense as a percent of revenues	1.0%	0.9%	0.9%	0.9%
Accounts receivable —				
days of revenue outstanding	38.7	41.8	N/A	N/A

(a) VITAS has 6 large (greater than 450 ADC), 15 medium (greater than 200 but less than 450 ADC) and 20 small (less than 200 ADC) hospice programs. As of December 31, 2006, there were 2 programs with a Medicare cap liability. There were no other programs with less than 10% cap cushion measured for the period from January 1, 2006 through December 31, 2006.

(b) Amounts exclude indirect patient care and administrative costs, as well as Medicare cap billing limitation.

CORPORATE GOVERNANCE

We submitted our Annual Certification of the Chief Executive Officer to the New York Stock Exchange (“NYSE”) regarding the NYSE corporate governance listing standards on May 30, 2006. We also filed our Certifications of the President and Chief Executive Officer, the Vice President and Chief Financial Officer and the Vice President and Controller pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1, 31.2 and 31.3, respectively, to our Annual Report on Form 10-K for the year ended December 31, 2006.

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

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

EXHIBIT 21
SUBSIDIARIES OF CHEMED CORPORATION

The following is a list of subsidiaries of the Company as of December 31, 2006: Other subsidiaries which have been omitted from the list would not, when considered in the aggregate, constitute a significant subsidiary. Each of the companies is incorporated under the laws of the state following its name. The percentage given for each company represents the percentage of voting securities of such company owned by the Company or, where indicated, subsidiaries of the Company as of December 31, 2006.

All of the majority owned companies listed below are included in the consolidated financial statements as of December 31, 2006.

Comfort Care Holdings Co. (Nevada, 100%)

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

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

Jet Resource, Inc. (Delaware, 100%)

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

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

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

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

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

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

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

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

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

VITAS Care Solutions, Inc. (Delaware, 100% by VITAS Healthcare Corporation)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-115270) and Form S-8 (Nos. 2-87202, 2-80712, 33-65244, 33-61063, 333-109104, 333-118714, 333-34525, 333-87071, 333-34525, 333-134107 and 333-87073) of Chemed Corporation of our report dated February 28, 2007 relating to the financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 28, 2007 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Cincinnati, Ohio
February 28, 2007

EXHIBIT 24

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints EDWARD L. HUTTON, KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 16, 2007

/s/ Donald Breen, Jr.
Donald Breen, Jr.

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints EDWARD L. HUTTON, KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 16, 2007

/s/ Charles H. Erhart, Jr.
Charles H. Erhart, Jr.

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints EDWARD L. HUTTON, KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 15, 2007

/s/ Joel F. Gemunder

Joel F. Gemunder

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints EDWARD L. HUTTON, KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 21, 2007

/s/ Patrick P. Grace
Patrick P. Grace

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints EDWARD L. HUTTON, KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 15, 2007

/s/ Edward L. Hutton
Edward L. Hutton

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints EDWARD L. HUTTON, KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 13, 2007

/s/ Thomas C. Hutton
Thomas C. Hutton

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints EDWARD L. HUTTON, KEVIN J. MCNAMARA and NAOMI C. DALLOB as her true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 14, 2007

/s/ Sandra E. Laney

Sandra E. Laney

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints EDWARD L. HUTTON, KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 16, 2007

/s/ Timothy S. O'Toole
Timothy S. O'Toole

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints EDWARD L. HUTTON, KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 14, 2007

/s/ Donald E. Saunders
Donald E. Saunders

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints EDWARD L. HUTTON, KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 15, 2007

/s/ George J. Walsh III

George J. Walsh III

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints EDWARD L. HUTTON, KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 13, 2007

/s/ Frank E. Wood
Frank E. Wood

POWER OF ATTORNEY

The undersigned director of CHEMED CORPORATION ("Company") hereby appoints EDWARD L. HUTTON, KEVIN J. MCNAMARA and NAOMI C. DALLOB as his true and lawful attorneys-in-fact for the purpose of signing the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

Dated: February 13, 2007

/s/ Walter L. Krebs

Walter L. Krebs

Exhibit 31.1

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

I, Kevin J. McNamara, certify that:

1. I have reviewed this annual report on Form 10-K of Chemed Corporation (“registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls or procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s fourth quarter in 2006 that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors:

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information;

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 28, 2007

/s/ Kevin J. McNamara

Kevin J. McNamara
(President & Chief Executive Officer)

Exhibit 31.2

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

I, David P. Williams, certify that:

1. I have reviewed this annual report on Form 10-K of Chemed Corporation ("registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls or procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth quarter in 2006 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information;

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2007

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

Exhibit 31.3

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

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

1. I have reviewed this annual report on Form 10-K of Chemed Corporation (“registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls or procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s fourth quarter in 2006 that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors:

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information;

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 28, 2007

/s/ Arthur V. Tucker, Jr.

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

Exhibit 32.1

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

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

1) the Company’s Annual Report on Form 10-K for the year ending December 31, 2006 (“Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Dated: February 28, 2007

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

Exhibit 32.2

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

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

1) the Company's Annual Report on Form 10-K for the year ending December 31, 2006 ("Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Dated: February 28, 2007

/s/ David P. Williams

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

Exhibit 32.3

CERTIFICATION BY ARHTUR V. TUCKER, JR.
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.

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

1) the Company's Annual Report on Form 10-K for the year ending December 31, 2006 ("Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Dated: February 28, 2007

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