CHEMED CORP
Form DEF 14A
April 08, 2008

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SCHEDULE 14A INFORMATION
(Rule 14a)
INFORMATION REQUIRED IN PROXY STATEMENT
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)

þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material pursuant to '240.14a-11(c) or '240.14a-12

Chemed Corporation
(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
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(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration
Statement No.:

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Notice of Annual Meeting of Stockholders
May 19, 2008

The Annual Meeting of Stockholders of Chemed Corporation will be held at The Queen City Club, 331 East Fourth Street, Cincinnati, Ohio, on Monday, May 19, 2008, at 11 a.m. for the following purposes:

(1) To elect directors;

(2) To ratify the selection of independent accountants by the Audit Committee of the Board of Directors; and

(3) To transact any other business as may properly come before the meeting.

Stockholders of record at the close of business on March 31, 2008, are entitled to notice of, and to vote at, the meeting.

IF YOU DO NOT PLAN TO ATTEND THE MEETING, PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY AND RETURN IT IN THE ENVELOPE PROVIDED AT YOUR EARLIEST CONVENIENCE, OR VOTE BY TELEPHONE OR INTERNET AS INSTRUCTED ON THE PROXY CARD, NO POSTAGE IS REQUIRED IF IT IS MAILED IN THE UNITED STATES.

Naomi C. Dallob
Secretary
April 4, 2008

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of Chemed Corporation (the Company or Chemed) of proxies to be used at the Annual Meeting of Stockholders (Annual Meeting) of the Company to be held on May 19, 2008, and any adjournments thereof. The Company s mailing address is 2600 Chemed Center, 255 East Fifth Street, Cincinnati, Ohio 45202-4726. The approximate date on which this Proxy Statement and the enclosed proxy are being sent to stockholders is April 4, 2008. Each valid proxy received in time will be voted at the meeting and, if a choice is specified on the proxy, the shares represented thereby will be voted accordingly. You may revoke your proxy at any time before the meeting by providing notice to the Secretary.

Stockholders as recorded in our stock register on March 31, 2008, may vote at the annual meeting or any adjournments thereof. On such date, the Company had outstanding 24,180,404 shares of capital stock, par value $1 per share (Capital Stock), entitled to one vote per share.

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ELECTION OF DIRECTORS

Twelve directors are to be elected at the Annual Meeting to serve until the next annual meeting of stockholders and until their successors are duly elected and qualified.

Unless authority is withheld or names are stricken, it is intended that the shares covered by each proxy will be voted for the nominees listed. Votes that are withheld or stricken will be excluded entirely from the vote and will have no effect. The Company anticipates that all nominees listed in this Proxy Statement will be candidates when the election is held. However, if for any reason any nominee is not a candidate at that time, proxies will be voted for any substitute nominee designated by the Board of Directors (except where a proxy withholds authority with respect to the election of directors). The affirmative vote of a plurality of the votes cast will be necessary to elect each of the nominees for director.

NOMINEES

Edward L. Hutton
Director since 1970
Age: 88

Mr. Hutton is Chairman of the Board of the Company and has held this position since May 2004. In May 2004, the Company amended its By- Laws to create the non-executive position of Chairman of the Board. Prior to May 2004, Mr. Hutton served in an executive position as Chairman of the Company from November 1993. Previously, from 1970 to May 2001, he also served the Company as Chief Executive Officer, and from 1970 to November 1993, he served the Company as President. Mr. Hutton also holds the honorary post of Chairman Emeritus, having served until February 2008 as the Chairman of the Board of Directors, of Omnicare, Inc., Covington, Kentucky (healthcare products and services), (hereinafter Omnicare). Mr. Hutton is the father of Thomas C. Hutton, a Vice President and a director of the Company.

Kevin J. McNamara
Director since 1987
Age: 54

Mr. 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 Executive Vice President, Secretary and General Counsel from November 1993, August 1986 and August 1986, respectively, to August 1994.

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Joel F. Gemunder Director since 1977 Age: 68	Mr. Gemunder is President and Chief Executive Officer of Omnicare and has held these positions since May 1981 and May 2001, respectively. He is also a director of Omnicare and Ultratech Stepper, Inc.
Patrick P. Grace Director since 1996 Age: 52	Mr. Grace is President of MLP Capital, Inc., an investment holding company which has had several real estate and mining interests in the southeastern United States. He has held that position since March 1996. From January 2002 to August 2002, he was also President and Chief Executive Officer of Kingdom Group, LLC (Kingdom), New York, New York (a provider of turnkey compressed natural gas fueling systems), which filed for bankruptcy January 2002, and he was Executive Vice President of Kingdom from August 1999 to December 2000.
Thomas C. Hutton Director since 1985 Age: 57	Mr. Hutton is a Vice President of the Company and has held this position since February 1988. He is a son of Edward L. Hutton, Chairman of the Board and a director of the Company.
Walter L. Krebs Director from May 1989 to April 1991, May 1995 to May 2003 and since May 2005 Age: 75	Mr. Krebs retired as Senior Vice President-Finance, Chief Financial Officer and Treasurer of Service America Systems, Inc., a former wholly-owned subsidiary of the Company (Service America), in July 1999, having held the position since October 1997. Previously, he was a Director- Financial Services of DiverseyLever, Inc. (formerly known as Diversey Corporation), Detroit, Michigan (specialty chemicals) (Diversey) from April 1991 to April 1996. Previously, from January 1990 to April 1991, he was Senior Vice President and the Chief Financial Officer of the Company s then-wholly-owned subsidiary, DuBois Chemicals, Inc. (DuBois).
Sandra E. Laney Director since 1986 Age: 64	Ms. Laney is Chairman and CEO of Cadre Computer Resources Co., Cincinnati, Ohio (information security) and has held this position since August 21, 2001. Ms. Laney retired as an Executive Vice President and the Chief Administrative Officer of the Company on March 1, 2003, having held these positions since May 2001 and May 1991, respectively. Previously, from November 1993 until May 2001, she held the position of Senior Vice President of the Company. She is a director of Omnicare.
Andrea R. Lindell Not previously a Director Age: 64	Ms. Lindell is Dean and a Professor of the College of Nursing at the University of Cincinnati, a position she has held since December 1990. Ms. Lindell is also Associate Senior Vice President of the Medical Center at the University of Cincinnati, a position she has held since July 1998. From September 1994 to June 2002, she also held an additional position as Interim Dean of the College of Allied Health Sciences at the University of Cincinnati. She is a director of Omnicare.
Timothy S. O Toole Director since 1991 Age: 52	Mr. O Toole is an Executive Vice President of the Company and has held this position since May 1992. He is Chief Executive Officer of Vitas Healthcare Corporation (Vitas), a wholly-owned subsidiary of the Company, and has held this position since February 2004. Previously, from May 1992 to February 2004, he also served the Company as Treasurer.

Donald E. Saunders Director from May 1981 to May 1982, May 1983 to May 1987 and since May 1998 Age: 63	Mr. Saunders is Visiting Executive Professor at the Farmer School of Business, Miami University, Oxford, Ohio, and has held this position since August 2001. Mr. Saunders retired as President of DuBois, then a division of DiverseyLever, Inc., Detroit, Michigan (specialty chemicals), in October 2000, having held that position since November 1993.

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George J. Walsh III
Director since 1995
Age: 62

Mr. Walsh is a partner with the law firm of Thompson Hine LLP, New York, New York, and has held this position since January 1979.

Frank E. Wood
Director since May 2002
Age: 65

Mr. Wood is President and Chief Executive Officer of Secret Communications, LLC, Cincinnati, Ohio (owner and operator of radio stations) and has held this position since 1994. He is also co-founder and principal of The Darwin Group, Cincinnati, Ohio (venture capital firm specializing in second-stage investments) and has held this position since 1998. Since 2000, he has also served as chairman of 8e6 Technologies Corporation, Orange, California (developer of Internet filtering software). He is also a director of Tribune Company.

Directors Emeriti

In May 1983, the Board of Directors adopted a policy of conferring the honorary designation of Director Emeritus upon former directors who made valuable contributions to the Company and whose continued advice is believed to be of value to the Board of Directors. Each Director Emeritus is furnished with a copy of all agendas and other materials furnished to members of the Board of Directors generally and is invited to attend all meetings of the Board; however, a Director Emeritus is not entitled to vote on any matters presented to the Board. A Director Emeritus is paid an annual fee of $18,000, and $500 for each meeting attended.

Mr. John M. Mount, who served as a Director of the Company from 1986-1991 and from 1994-2003, was designated Director Emeritus in May 2005. Beginning March 1, 2007 he receives $1,000 per month as a consultant to the Company. It is anticipated that at the annual meeting of the Board of Directors, Mr. Mount will again be designated as a Director Emeritus.

CORPORATE GOVERNANCE

Director Compensation

Effective May 16, 2006, each member of the Board of Directors who is not an employee of the Company is paid an annual fee of $20,000 and a fee of $3,000 for each meeting attended. Each member of the Nominating Committee of the Board is paid an additional annual fee of $7,000. Each member of the Audit Committee of the Board is paid an additional annual fee of $10,000, and each member of the Compensation/Incentive Committee of the Board (other than its chairman) is paid an additional annual fee of $3,500. A Committee member, other than Nominating Committee members who receive no meeting fees, is paid $1,000 for each meeting of a Committee he attended unless the Committee met on the same day as the Board of Directors met. Committee members are then paid $500 for attendance at the meeting. Mr. Edward Hutton, who served in the non-executive position of Chairman of the Board during 2007, received $325,000 in salary, $112,738 for income imputed on the company s premium deposits under a split dollar insurance policy, $41,945 allocated to his accounts under the Company s Retirement Plan and Excess Benefit Plan, a $2,736 premium payment for term life insurance, and $27,508 in the form of an unrestricted stock award of 400 shares of Capital Stock. Mr. Hutton does not receive any additional amounts in his capacity as director of the Company.

The chairs of certain Committees of the Board of Directors are paid an annual fee in addition to the attendance fees referred to above. The chair of the Audit Committee is paid at the rate of $10,000 per year, and the chair of the Compensation/Incentive Committee is paid at the rate of $5,250 per year. In addition, each member of the Board of Directors and of a Committee is reimbursed for reasonable travel expenses incurred in connection with such meetings.

In addition, in May 2007, Messrs. Charles H. Erhart, Gemunder, Grace, Krebs, Saunders, Wood and Ms. Laney received $68,770 in the form of an unrestricted stock award of 1,000 shares of Capital Stock. Messrs. E. Hutton, McNamara, O Toole and T. Hutton received $27,508 in the form of an unrestricted stock award of 400 shares of Capital Stock and Mr. Walsh received the cash equivalent of 1,000 shares of Capital Stock, or $67,960.

The Company has a deferred compensation plan under which certain directors who are not employees of the Company or of a subsidiary of the Company participate. Under the plan, which is not a tax-qualified plan, an account is established for each participant to which amounts are credited quarterly at the rate of $4,000 per year. These amounts are used to purchase shares of Capital Stock, and all dividends are reinvested in Capital Stock. Each participant is entitled to receive the balance in his account within 90 days following the date he ceases to serve as a director. Directors may participate in the Company s health insurance plans by paying rates offered to former employees under COBRA.

Directors may also elect to defer receipt of their directors fees under the Company s Excess Benefit Plan. In 2007, we provided the following compensation to directors for services to the Company:

DIRECTOR COMPENSATION-2007

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(a)	All Other Compensation ($)	Total ($)
Edward L. Hutton (b)	$325,000 (c)	$27,508	$220,460 (d)	$572,968
Donald Breen	18,333	1,333		19,666
Charles H. Erhart, Jr.	69,750	72,770		142,520
Joel F. Gemunder	40,333	72,770		113,103
Patrick P. Grace	58,500	72,770		131,270
Thomas C. Hutton (b)(e)		27,508		27,508
Walter L. Krebs	52,500	72,770		125,720
Sandra E. Laney (b)	38,000	72,770		110,770
Donald E. Saunders	62,500	72,770		135,270
George J. Walsh III	116,460	4,000		120,460
Frank E. Wood	42,512	72,770		115,282

(a) Amount for Mr. Breen includes a contribution of $1,333 of Capital Stock held in the Chemed Excess Benefit Plan. Amounts for Messrs. Erhart, Gemunder, Grace, Krebs, Saunders, Walsh, Wood and Ms. Laney include contributions of $4,000 of Capital Stock held in the Chemed Excess Benefit plan.

(b) At December 31, 2007 Mr. E. L. Hutton, Ms. Laney and

Mr. T. C. Hutton had stock options outstanding for the purchase of 30,000 shares, 61,000 shares and 23,333 shares, respectively, of Capital Stock. At December 31, 2007, Mr. T. C. Hutton held 3,700 restricted shares of Capital Stock.

(c) Amount represents Mr. E. L. Hutton s salary as non-executive Chairman of the Board.

(d) All other compensation for Mr. E. L. Hutton includes imputed interest on the value of the Company premium deposits for his split dollar life insurance policy ($112,738), the Company contribution to the Retirement Plan and Excess Benefit Plan with respect to 2007 ($41,945), personal use of the Company aircraft, reimbursement for income taxes on his personal use of the Company aircraft ($7,732), premium payment for term life insurance ($2,736), and personal use of Company cars. The amount of imputed interest was calculated using the applicable federal rate as of July 1, 2007 times the value of Company premium deposit as of January 1, 2007.

(e) Amounts for Mr. T. C. Hutton exclude the compensation he receives as a Vice President of the Company.

Committees and Meetings of the Board

The Company has the following Committees of the Board of Directors: Audit Committee, Nominating Committee and Compensation/Incentive Committee.

Audit Committee The Audit Committee (a) is directly responsible for the appointment, compensation, and oversight of a firm of independent registered accountants to audit the consolidated financial statements of the Company, (b) reviews and reports to the Board of Directors on the Company s annual financial statements and the independent accountants report on such financial statements, (c) meets with the Company s senior financial officers, internal auditors and independent accountants to review audit plans and work regarding the Company s accounting, financial reporting and internal control systems and other non-audit services, and (d) confers quarterly with senior management, internal audit staff, and the independent accountants to review quarterly financial results. The Audit Committee consists of Messrs. Erhart, Grace, Krebs, and Saunders. The Board of Directors has determined that Mr. Saunders and Mr. Krebs qualify as audit committee financial experts within the meaning of the applicable SEC regulations. The Audit Committee met six times during 2007. A copy of the Audit Committee Charter is available at www.chemed.com

Compensation/Incentive Committee The Compensation/Incentive Committee (CIC) makes recommendations to the Board of Directors concerning (a) salary and incentive compensation payable to officers and certain other key employees of the Company, (b) establishment of incentive compensation plans and programs generally, (c) adoption and administration of certain employee benefit plans and programs and (d) additional year end contributions by the Company under the Chemed/Roto-Rooter Savings and Retirement Plan (Retirement Plan). In addition, the CIC administers the Company s (a) 2002 Executive Long-Term Incentive Plan, (b) five Stock Incentive Plans and the 1999 Long-Term Employee Incentive Plan and (c) grants of stock options and stock awards to key employees of the Company. The CIC consists of Messrs. Erhart, Walsh and Wood. The CIC met six times during 2007. A copy of the CIC Charter is available on the Company s Web site, www.chemed.com.

Nominating Committee The Nominating Committee (a) recommends to the Board of Directors the candidates for election to the Board at each Annual Meeting of Stockholders of the Company, (b) recommends to the Board of Directors candidates for election by the Board to fill vacancies on the Board, (c) considers candidates submitted by directors, officers, employees, stockholders and others and (d) performs such other functions as may be assigned by the Board. The Nominating Committee consists of Messrs. Erhart, Walsh and Grace. Each member of the Nominating Committee is independent as defined under the listing standards of the New York Stock Exchange. The Nominating Committee met once during 2007. In identifying and evaluating nominees for director, the Nominating Committee considers candidates with a wide variety of academic backgrounds and professional and business experiences. After reviewing written statements of the candidates backgrounds and qualifications, the Nominating Committee personally interviews those candidates it believes merit further consideration. Once it has completed this process, the Nominating Committee makes its final recommendations to the Board. Ms. Lindell, the only nominee not standing for re-election, was nominated by Mr. Erhart. Stockholders wishing to submit a candidate for election to the Board should submit the candidate s name and a supporting statement to the Company s Secretary at 2600 Chemed Center, 255 East Fifth Street, Cincinnati, Ohio 45202-4726. A copy of the Nominating Committee Charter is available on the Company s Web site, www.chemed.com.

Board Meetings The Board of Directors has five scheduled meetings a year, at which it reviews and discusses reports by management on the performance of the Company and its operating subsidiaries, its plans and properties, as well as immediate issues facing the company. The Board meets during each of its meetings in executive session, without executives or management directors present. Such sessions are presided over by whichever non-management director raises a topic for discussion.

During 2007, there were six meetings of the Board of Directors. Each director attended at least 75 percent of the Board and Committee meetings. While the Company does not have a formal policy with regard to Board members attendance at the Annual Meeting, all members of the Board are encouraged to attend. Twelve members of the Board attended last year s Annual Meeting held on May 21, 2007.

Director Independence In March 2008, the Board and the Nominating Committee undertook an annual review of director and nominee independence. They considered transactions and relationships between each director or any member of his or her immediate family and the Company and its subsidiaries and affiliates, including those reported under the caption Certain Relationships and Transactions below. The Board and Nominating Committee also examined transactions and relationships between directors and their affiliates and members of the Company s senior management and their affiliates. The purpose of this review was to determine whether any such relationships or transactions were inconsistent with a determination that the director or nominee is independent under the New York Stock Exchange corporate governance standards.

As a result of this review, the Board and the Nominating Committee affirmatively determined that, under the New York Stock Exchange listing standards, the following directors and nominees for director, constituting a majority of the individuals nominated for election as directors at the Annual Meeting, are independent of the Company and its management: Messrs. Erhart, Gemunder, Grace, Krebs, Saunders, Walsh and Wood, and Ms. Lindell.

In February 2007, the Audit Committee adopted a written policy and set of procedures for reviewing transactions between the Company and related persons who include directors, nominees, executive officers, and any person known to be the beneficial owner of more than 5% of the Company s voting securities or any immediate family member of such person. The policy also covers any firm, corporation or other entity in which any such person is employed or is a partner or principal, or in which such person has a 5% or greater beneficial ownership interest. Prior to entering into a transaction with a related person, notice must be given to the Secretary of the Company containing (i) the related person s relationship to the Company and interest in the transaction (ii) the material facts of the transaction, (iii) the benefits to the Company of the transaction (iv) the availability of any other sources of comparable products or services and (v) an assessment of whether the transaction is on terms comparable to those available to an unrelated third party. If the Company s Secretary and Chief Financial Officer determine that it is a related party transaction, the proposed transaction is submitted to the Audit Committee for its approval. The policy also provides for the quarterly review of related person transactions which have not previously been approved or ratified and any other such transactions which come to the attention of the Company s Chief Executive Officer, Chief Financial Officer, Controller or Secretary. If the transaction is pending or ongoing, it will be promptly submitted to the Audit Committee for approval. If the transaction is completed, it will be submitted to determine if ratification or rescission is

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appropriate. This policy also covers charitable contributions or pledges by the Company to non-profit organizations identified with a related person.

Code of Ethics The Board of Directors has adopted Corporate Governance Principles and Policies on Business Ethics which along with the charters of the Audit, Compensation/Incentive and Nominating Committees are available on the Company s Web site under Corporate Governance Governance Documents (www.chemed.com). Printed copies may be obtained from the Company s Secretary at 2600 Chemed Center, 255 East Fifth Street, Cincinnati, Ohio 45202-4726.

Shareholder Communications Stockholders and others wishing to communicate with members of the Board should mail the Company s Secretary at 2600 Chemed Center, 255 East Fifth Street, Cincinnati, Ohio 45202-4726. The Secretary will forward these communications to the members of the Board and, if applicable, to specified individual directors.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Program

The executive compensation program is administered by the CIC. The membership of the CIC is comprised of three independent directors. The CIC is responsible for the review, approval and recommendation to the Board of Directors of matters concerning base salary and annual cash incentive compensation for key executives of the Company. The recommendations of the CIC on such matters must be approved by the full Board of Directors. The CIC also administers the Company s stock incentive plans, under which it reviews and approves grants of stock options and awards, and the Company s Long Term Incentive Plan (LTIP). The CIC also has retained the services of independent compensation consultants to assist and advise the committee in administering the executive compensation program.

Objectives of Compensation Program

The Company s executive compensation program is intended to achieve the objectives of aligning executives interests with those of its stockholders; paying for performance; paying competitively; and creating incentive for long-term growth of our business. To achieve these objectives, the elements of executive compensation are designed to reward past performance and establish incentive for future growth.

Elements of Compensation

The elements of the Company s executive compensation program include base salary, annual cash bonus, and long-term incentive compensation in the forms of stock options, stock awards, and awards under the 2002 Executive Long-Term Incentive Plan (LTIP). Components of compensation which are available generally to all employees are defined contribution benefit plans; and life, disability and medical insurance programs. In addition, the Chemed Excess Benefit Plan, the Chemed Corporation Long Term Care Insurance Plan, the Chemed Supplemental Pension and Life Insurance Plan, and the Roto-Rooter Deferred Compensation Plan are available as components of compensation to executives and other highly compensated individuals. Base salary, annual cash bonuses, and pension and welfare plans are established at competitive levels and intended to reward executives for current and past performance, while longer term incentives such as stock options, stock awards and LTIP payments are intended to create incentive for future growth.

Amount of Each Element of Compensation; Decisions Concerning Payments

The CIC exercises its discretion in setting compensation for executives using performance standards and industry benchmarks with the assistance of the Committee s independent compensation consultants. It intends compensation to be linked directly to personal performance and to the Company s overall results, as well as those specific business units for which executives are responsible. The Company s executive compensation program is focused on rewarding long-term growth.

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The CIC periodically reviews each executive s total compensation and stock holdings, including salary, bonus, stock options granted, stock awards, LTIP payments, unrealized stock option gains, perquisites and defined contribution plan holdings in setting the respective elements of compensation.

In determining base salaries, the CIC considers the responsibilities held by each executive, and his or her experience and performance. Compensation Strategies Inc., an independent compensation advisory firm that is retained by and reports exclusively to the CIC and does no other work for the Company, has periodically reviewed base salaries and provided advice to the CIC. The CIC sets base salaries at levels it believes will attract and retain qualified executives.

In determining annual cash bonuses, the CIC intends to reward executives whose performance enhances the operating results of their business unit and of the Company as a whole. Bonuses as a percent of senior executives salaries are intended to be sufficient to provide a major incentive for achieving superior operating performance. The Company s operating results as compared with historical results and the performance of relevant competitors are primary considerations in determining annual incentive compensation. Sales and earnings growth, profitability, cash flow and return on investment are important performance measures in establishing annual cash bonus amounts. For example, in establishing incentive compensation for the executive, management, and senior staff personnel of Chemed and its subsidiaries, the CIC reviewed 2007 profit performance as compared with both 2005 and 2006 results as one of its primary criteria. Diluted earnings per share from continuing operations, excluding early extinguishment of debt and other special items, but including the results from the discontinued operations of Vitas Phoenix program (Adjusted EPS) is one of the metrics considered by the CIC.

The following table summarizes the increases in earnings and changes in incentive compensation for 2005 2007.

	% Variance		Avg. Annual % Variance
	2006 vs. 2005	2007 vs. 2006	2005 - 2007
Reported Diluted EPS	56.5%	15.7%	34.6%
Adjusted EPS	3.1	60.5	28.6
Incentive Compensation	(16.0)	61.3	16.4

Incentive compensation for the executive, management and senior staff personnel of Chemed and its subsidiaries increased 16.4% on an average annual basis from 2005 2007. Adjusted EPS for the same period increased 28.6% on an average annual basis. For the one-year period 2006 2007, adjusted EPS increased 60.5%; incentive compensation increased a commensurate 61.3%. For the one-year period 2005 2006, Adjusted EPS increased a relatively low 3.1%; incentive compensation declined 16.0% as a result. The CIC intends to set incentive compensation at levels reflective of the operating results of Chemed and its subsidiaries.

In awarding long-term incentives, which include stock options, stock awards and LTIP awards, the CIC considers as recipients employees who have demonstrated capacity for contributing to the Company s goals. Long-term awards are generally made in the form of stock grants and stock options and are intended to encourage these employees to act as owners of the business, further aligning their interests with those of stockholders. The CIC makes stock option grants at no less than 100% of fair market value of Capital Stock on the date of grant. Historically, the CIC generally makes an annual grant of stock options to executives and non-executive employees at the Company s May Board meeting. The size of stock grants is not affected by the timing of the grants. Further, the grants are not made so as to time them before the release of nonpublic material information that is likely to result in an increase in stock price (spring-loading) or delay them until after the release of nonpublic material information that is likely to result in a decrease in stock price (bullet-dodging). We do not reprice options or replace them if our stock price declines after the grant date.

The CIC grants a greater amount of stock awards and a higher proportion of stock options to those executives with greater positions of responsibility. The CIC considers each employee s current option holdings and previous option grants in making grants. Other factors considered by the CIC in establishing grants include operating results of the business units and Company as a whole, dilution effects of option grants, and valuation of option grants under the Black-Scholes valuation method.

In May 2002, the stockholders of the Company approved the adoption of the LTIP covering officers and key employees of the Company. It was intended to replace the Company s restricted stock program under which restricted stock awards were granted which vested over a period of four or five years. The LTIP is administered by the CIC.

Since 2002, the CIC has adopted LTIP guidelines which cover the granting of awards based on operating performance and attainment of target stock prices. Under the current guidelines, which are for the third Plan Period of the LTIP:

80,000 shares are to be awarded if the Company s cumulative pro forma adjusted EBITDA reaches $465 million between January 1, 2007 and December 31, 2009, or if it reaches $604 million between January 1, 2007 and December 31, 2010.

80,000 shares are to be awarded if the stock price reaches the following targets during any 30 trading days out of any 60-day trading period between May 15, 2006 and May 14, 2009:

20,000 shares at $62.00;

30,000 shares at $68.00;

30,000 shares at $75.00.

In addition, the CIC maintains discretion with regard to the awarding of an additional 25,000 shares under the LTIP guidelines, 2,200 of which were awarded in June 2007 upon attainment of the $62.00 share price target.

In March 2007, the CIC awarded 100,000 shares upon attainment of cumulative pro forma adjusted EBITDA target of $365 million for the second Plan Period of the LTIP, covering the period of 2004 2007. The shares awarded included 88,000 shares designated for award upon achievement of the EBITDA performance target and the remaining 12,000 of the shares under the discretion of the CIC for the second Plan Period of the LTIP.

In June 2007 the CIC awarded 22,200 shares upon attainment of the $62.00 share price target under the third Plan Period of the LTIP. The shares awarded included 20,000 shares designated for the award upon achievement of the target, and 2,200 shares under the discretion of the CIC.

The Company s executive compensation program offers perquisites that are commonly available to senior executives, the nature and amounts of which are detailed in the Summary Compensation Table.

U.S. federal income tax law prohibits us from taking a deduction for compensation paid to the Company s covered executive officers over $1,000,000 per executive per year, but exempts certain performance-based compensation. The CIC considers tax regulations in structuring compensation arrangements to achieve deductibility, except where outweighed by the need for flexibility, or if otherwise in the best interests of the Company and its stockholders.

Employment Agreements; Severance Payments; Change in Control

When the employment agreements of Mr. McNamara and Mr. O Toole expire in May 2008 and May 2007, respectively, they are replaced with two-year agreements that include automatic renewal provisions unless either party provides notice of non-renewal. These agreements limit severance payments to 5.0 times and 2.5 times the executive s annual base salary, respectively, for Messrs. McNamara and O Toole, a pro-rated portion of his annual incentive bonus and continued participation in the Company s welfare benefit plans for twenty-four months and eighteen months, respectively. Severance payments and benefits are conditioned upon non-competition, non-solicitation and confidentiality agreements as well as liability waivers. If these payments become subject to the excise tax imposed by Section 409A of Internal Revenue Code (Code), they would be entitled to gross-up payments. On November 30, 2006 Mr. Williams entered into a two-year employment agreement with the Company, which offers the same severance payments and benefits as outlined for Mr. O Toole above.

With the elimination of the majority of the then existing employment agreements, the Board adopted a Senior Executive Severance Policy in 2006 for the twelve executives whose employment agreements were allowed to expire, including Messrs. Lee and Tucker. Under this policy if an executive is terminated without cause he is entitled to a lump sum payment of 1.5 times base salary and a pro-rated portion of annual incentive bonus. He is also entitled to continued participation in the Company s welfare benefit plan for one year following termination of employment. Severance payments and benefits are conditioned on execution of a general release in favor of the Company, nondisclosure and one-year non-compete and non-solicitation covenants. If payments under this Severance Policy are subject to excise taxes imposed by Section 409A of the Code, participants are entitled to gross-up payments.

In connection with the reduction in the number and duration of executive employment agreements and the adoption of the Severance Policy, in 2006 the Board adopted a Change in Control Severance Plan. It provides for severance payments and benefits in the event of a change in control of the Company followed within two years by an executive s termination of employment either without cause

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or by constructive termination (double trigger). Payments are in lieu of, and not in addition to, payments an executive might be entitled to under an employment agreement or the Severance Policy. Payments under the Control Plan are triggered by:

a) termination of employment by the Company without cause; or

b) termination of employment by the employee within 90 days of an event giving him or her good reason to so terminate.

The Control Plan provides for payments of three times base salary and bonus to Messrs. McNamara, O Toole and Williams, and two times base salary and bonus to the other participants, all paid in a lump sum within 10 days of termination. Participants also receive welfare benefits (including health insurance, life insurance, long-term care insurance and long-term disability benefits), a lump sum cash payment within 10 days of termination in the amount of employer contributions to defined contribution plans, and perquisites for a period of three or two years. Participants also receive full vesting of any unvested portions of stock awards or stock options; CIC allocation of, and distribution of, any shares then unallocated under the Company s equity-based plans, and outplacement assistance up to $25,000. Payments are conditioned on execution of a general release of claims in favor of the Company. If payments under the Control Plan are subject to tax imposed by Sections 4999 or 409A of the Code, participants are entitled to gross-up payments.

Role of Executive Officers

In addition to meeting with certain executive officers, the CIC meets in executive session without any Company employees present. It reviews the recommendations of management, except with respect to the compensation of Mr. McNamara, in order to determine the respective amount of each element of compensation for each executive. It can exercise its discretion in modifying any recommendations of management. The committee s actions are reviewed and discussed by the non-employee members of the Board of Directors. The CIC directly awards compensation under the Company s stock incentive plans, such as stock options, stock awards and LTIP payments. Other forms of compensation such as annual salaries and annual cash bonuses are recommended by the CIC for approval by the non-employee members of the Board of Directors.

Stock Ownership Guidelines

Executive share ownership reflects an alignment of the interests of the Company s executives and directors with those of its stockholders. All of the Company s directors, Vice Presidents, Senior Vice Presidents, Executive Vice Presidents, Business Unit Presidents, and its CEO are required to acquire and retain a multiple of their annual base salary or board retainer in shares of Company stock.

The CEO s required stock ownership multiple is five times base salary; for the CFO, Executive Vice President and Unit Presidents, four times; for Senior Vice Presidents, three times; and for Vice Presidents, two times base salary. Non-employee directors are required to retain five times their annual board retainer, which was $20,000, resulting in required holdings of $100,000, in 2007. These guidelines are administered by the CIC. Mr. McNamara currently holds Chemed shares with a market value of approximately 14 times his base salary. All other executives and directors subject to the guidelines have either met their ownership requirements or are pursuing plans that will permit them to achieve them within the time frame allotted by the guidelines.

Report of the Compensation and Incentive Committee on Executive Compensation

The CIC has reviewed and discussed the Compensation Discussion and Analysis set forth above with the Company s management. Based on these reviews and discussions the CIC recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company s 2007 Annual Report on Form 10-K and the Company s 2008 Proxy Statement:

Charles H. Erhart, Jr., Chairman
George J. Walsh III
Frank E. Wood

Summary Compensation Table

The following table shows the compensation paid to the Chief Executive Officer and the four most highly compensated executive officers of the Company in 2006 and 2007 for all services rendered in all capacities to the

Company and its subsidiaries:

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SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($) (a)	Option Awards ($) (a)	All Other Compensation ($)	Total ($)
K. J. McNamara	2007	$666,667	$1,350,000	$1,553,683	$995,518	$504,380(b)	$5,070,248
President and CEO	2006	625,000	900,000	262,705	225,871	369,806(b)	2,188,245
D. P. Williams	2007	335,667	475,000	748,308	422,665	206,615(c)	2,188,245
Executive Vice President and CFO	2006	296,750	240,000	72,796	84,706	103,538(c)	797,790
T. S. O Toole	2007	511,333	350,000	805,954	268,249	235,973(d)	2,171,509
Executive Vice President	2006	435,750	225,000	101,915	84,706	188,666(d)	1,036,037
S. S. Lee	2007	274,000	314,000	575,235	207,999	267,669(e)	1,638,903
Executive Vice President	2006	263,875	245,000	28,069	56,458	157,904(e)	751,306
A. V. Tucker, Jr.	2007	174,417	141,000	399,943	180,802	109,951(f)	1,006,113
Vice President and Controller	2006	166,875	102,000	38,446	45,167	51,755(f)	404,243

(a) Amounts represent the expense of stock awards and option awards for the period based on the grant date fair value of such awards determined in accordance with SFAS 123(R), Share Based Payment. Amounts for Messrs. McNamara and O Toole include $27,508 in 2007 ($21,998 in 2006) for their services as directors. See Note 2 to the Consolidated Financial Statements included in Exhibit 13 to the Company s Annual Report on Form 10-K for a description of the assumptions used in determining the grant date fair value.

(b) Other Compensation for Mr. McNamara includes the Company contribution under the Excess Benefit Plan (2007 $395,289; 2006 $229,945), personal use of the Company aircraft (2007 - $40,602; 2006 $83,708), reimbursement for income taxes on personal use of the Company aircraft (2007 $8,964; 2006 $19,055), accrual of an un-funded supplemental retirement benefit (2007 $26,356; 2006 $26,356), excess interest earned on the supplemental retirement benefit, the Company contribution under the Retirement Plan, the cost of term life insurance, long-term care insurance and personal use of Company apartments. The value of the use of the Company aircraft was determined by multiplying the number of flight hours times the average variable cost per hour of operating the aircraft in the respective year. The value of the supplemental retirement benefit is the expense the Company accrued in the respective year.

(c) Other compensation for Mr. Williams includes the Company contribution under the Excess Benefit Plan (2007 $166,517; 2006 $68,061), accrual of an un-funded supplemental retirement benefit, excess interest earned on the supplemental retirement benefit, personal use of the Company aircraft, the Company contribution under the Retirement Plan, the cost of term life insurance, long-term care insurance and the value of personal use of a golf club membership. The value of the supplemental retirement benefit is the expense the Company accrued in the respective year.

(d) Other compensation for Mr. O Toole includes the Company contribution under the Excess Benefit Plan (2007 $193,051; 2006 $95,556), accrual of an un-funded supplemental retirement benefit (2007 $23,218; 2006 $23,218), excess interest earned on the

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supplemental retirement benefit, the Company contribution under the Retirement Plan, the cost of term life insurance, and long-term care insurance. The value of the supplemental retirement benefit is the expense the Company accrued in the respective year. In 2006 this amount includes a cash housing allowance ($36,000) and reimbursement for income taxes on the housing allowance ($18,000).

(e) Other compensation for Mr. Lee includes the Company contribution under the Roto-Rooter Deferred Compensation Plan (2007 $185,285; 2006 $74,397), payment of interest on the mortgage loan secured by his personal residence (2007 $45,937; 2006 $47,443), accrual of an un-funded supplemental retirement benefit, excess interest earned on the supplemental retirement benefit, the Company contribution under the Retirement Plan, the cost of term life insurance, the cost of long-term care insurance and the value of personal use of a golf club membership. The value of the supplemental retirement benefit is the expense the Company accrued in the respective year.

(f) Other compensation for Mr. Tucker includes the Company contribution under the Excess Benefit Plan (2007 $79,210; 2006 $27,700), accrual of two un-funded supplemental retirement benefits, excess interest earned on the supplemental retirement benefits, the Company contribution under the Retirement Plan, the cost of term life insurance, and long-term care insurance. The value of the supplemental retirement benefit is the expense the Company accrued in the respective year.

Employment Agreements

The Company has entered into employment agreements with Messrs. McNamara, O Toole and Williams. Mr. McNamara s employment agreement provides for his continued employment as President and Chief Executive Officer of the Company through May 3, 2008, subject to earlier termination under certain circumstances, at a base annual salary of $700,000 or such higher amount as the Board of Directors may determine, as well as participation in incentive compensation plans, stock incentive plans and other benefit plans. In the event of termination without cause, for the balance of the term of agreement, Mr. McNamara will receive severance payments equal to 150 percent of his then-current base salary, the amount of incentive compensation most recently paid or approved in respect of the previous year, and the fair market value of all stock awards which would have vested during the 12 months prior to termination, even though such shares vested on an accelerated basis effective January 1, 2002. Such severance payments will be reduced by the amount of any earned income received by Mr. McNamara from any other source for any period such severance payments are payable.

Mr. Williams employment agreement provides for his employment as a senior financial executive through November 30, 2008 and provides for an annual salary of $380,000 or such higher amount as the Board of Directors may determine. If his employment is terminated without cause, he receives severance at 2.5 times his annual base salary plus a prorated portion of his annual incentive compensation and he continues to participate in the Company s welfare benefit plans for eighteen months. Such payments are conditioned upon nondisclosure and one-year non-compete and non-solicitation covenants. If such payments are subject to excise tax imposed by Section 409A of the Code, Mr. Williams is entitled to gross-up payments. Mr. O Toole has an employment agreement providing for his employment as a senior executive from May 6, 2007 to May 5, 2009 and is identical in all material respects to that of Mr. Williams, except his base salary is $525,000 or such higher amount as the Board of Directors may determine.

Stock Incentive Plans

The Company has six Stock Incentive Plans under which options to purchase shares of Capital Stock and awards of Capital Stock may be granted to key employees. All options granted under these plans provide for a purchase price equal to the fair market value of the Capital Stock at the grant date. Fair market value is defined as the mean between the high and low sales price of a share of Capital Stock on the principal stock exchange on which the Company is listed, which is the New York Stock Exchange.

The stock option plans are not qualified, restricted or incentive stock option plans under the Code. Options granted prior to 2004 generally became exercisable in four annual installments commencing six months after the date of grant. Options granted in 2004 became exercisable in full six months after the date of grant. Options granted in 2005 were immediately exercisable and options granted in 2006 and 2007 were exercisable in three annual installments on the anniversary date of the grant.

Under the Company s incentive programs, shares of Capital Stock (restricted or non-restricted) may be issued as payment in lieu of incentive compensation earned or to be earned by a key employee. Restricted shares so issued may not be sold or otherwise transferred until they vest. If the recipient s employment terminates due to death, disability, or termination without cause, the restrictions terminate. On retirement, for grants made in 2006 and thereafter, the restrictions lapse pro rata over the life of the grant. Otherwise, in the event of termination, unvested shares are forfeited. Recipients receive dividends on the awarded shares and are entitled to vote such shares, whether or not they are vested.

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Long Term Incentive Plan

In 2002, the stockholders approved the Company s Long Term Incentive Plan, which covers officers and key employees of the Company. Based on guidelines established from the Compensation/Incentive Committee, the LTIP covers awards upon the attainment of certain goals. In 2007, 122,200 shares were awarded under the LTIP.

Other Plans

The Company has various plans including pension plans, savings plans and health insurance plans which are generally available to the employees of the Company. In addition, the Company has excess benefit plans for key employees, including the executives named in the Summary Compensation Table whose participation in the Company s tax-qualified benefit plans are limited by ERISA rules. Benefits are determined based on theoretical participation in the Company s qualified plans. Participants are able to direct investment into the mutual funds of their choosing.

Eligible employees, including the executives named in the Summary Compensation Table, also participate in the Company s supplemental pension and life insurance plan. Under this plan participants receive supplemental pension benefits, which may be used to purchase supplemental term life insurance.

Outstanding Equity Awards at Year End

The following table shows outstanding equity awards at 2007 year end held by executive officers named in the Summary Compensation Table:

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OUTSTANDING EQUITY AWARDS AT YEAR END 2007

	Option Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value Of Shares Or Units of Stock That Have Not Vested (e) ($)
K. J. McNamara	400		$16.10			