



## FRANCHISE DISCLOSURE DOCUMENT

Roto-Rooter Corporation  
An Iowa Corporation  
300 Ashworth Road  
West Des Moines, Iowa 50265  
(515) 223 – 1343  
<http://rotorooter.com>

The franchise offered is for the right to operate a business-offering sewer, drain, pipe cleaning and specific related services under the name "Roto-Rooter".

The initial franchise fee is \$25,000 to \$75,000 payable on signing the Franchise Agreement. The total investment necessary to begin operation of a Roto-Rooter franchised business is \$84,920 to \$255,000. This includes \$25,000 to \$75,000 that must be paid to franchisor or its affiliates.

This disclosure document summarizes certain provisions of your franchise agreement and other information in plain English. Read this disclosure document and all accompanying agreements carefully. You must receive this disclosure document at least 14 calendar-days before you sign a binding agreement with, or make any payment to, the franchisor or an affiliate in connection with the proposed franchise sale. **Note, however, that no governmental agency has verified the information contained in this document.**

Franchisors may include additional disclosures on the cover page, on a separate cover page, or addendum to comply with state pre-sale disclosure laws.

The terms of your contract will govern your franchise relationship. Don't rely on the disclosure document alone to understand your contract. Read all of your contract carefully. Show your contract and this disclosure document to an advisor, like a lawyer or an accountant.

Buying a franchise is a complex investment. The information in this disclosure document can help you make up your mind. More information on franchising, such as "[A Consumer's Guide to Buying a Franchise](#)," which can help you understand how to use this disclosure document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP

or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 20580. You can also visit the FTC's home page at [www.ftc.gov](http://www.ftc.gov) for additional information. Call your state agency or visit your public library for other sources of information on franchising.

There may also be laws on franchising in your state. Ask your state agencies about them.

Effective Date: March 31, 2022

## How to Use This Franchise Disclosure Document

Here are some questions you may be asking about buying a franchise and tips on how to find more information:

QUESTION	WHERE TO FIND INFORMATION
How much can I earn?	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Exhibits 4 and 5.
How much will I need to invest?	Items 5 and 6 list fees you will be paying to the franchisor or at the franchisor's direction. Item 7 lists the initial investment to open. Item 8 describes the suppliers you must use.
Does the franchisor have the financial ability to provide support to my business?	Item 21 or Exhibit 6 includes financial statements. Review these statements carefully.
Is the franchise system stable, growing or shrinking?	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
Will my business be the only Roto-Rooter business in my area?	Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
Does the franchisor have a troubled legal history?	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
What's it like to be a Roto-Rooter franchisee?	Item 20 or Exhibits 4 and 5 list current and former franchisees. You can contact them to ask about their experiences.
What else should I know?	These questions are only a few things you should look for. Review all 23 items and all Exhibits in this disclosure document to better understand this franchise opportunity. See the table of contents.

## What You Need to Know About Franchising Generally

Continuing responsibility to pay fees. You may have to pay royalties and other fees even if you are losing money.

Business model can change. The franchise agreement may allow the franchisor to change its manuals and business model without your consent. These changes may require you to make additional investments in your franchise business or may harm your franchise business.

Supplier restrictions. You may have to buy or lease items from the franchisor or a limited group of suppliers the franchisor designates. These items may be more expensive than similar items you could buy on your own.

Operating restrictions. The franchise agreement may prohibit you from operating a similar business during the term of the franchise. There are usually other restrictions. Some examples may include controlling your location, your access to customers, what you sell, how you market, and your hours of operation.

Competition from franchisor. Even if the franchise agreement grants you a territory, the franchisor may have the right to compete with you in your territory.

Renewal. Your franchise agreement may not permit you to renew. Even if it does, you may to sign a new agreement with different terms and conditions in order to continue to operate your franchise business.

When your franchise ends. The franchise agreement may prohibit you from operating a similar business after your franchise ends even if you still have obligations to your landlord or other creditors.

### Some States Require Registration

Your state may have a franchise law, or other law, that requires franchisors to register before offering or selling franchises in the state. Registration does not mean that the state recommends the franchise or has verified the information in this document. To find out if your state has a registration requirement, or to contact your state, use the agency information in Exhibit 1.

Your state also may have laws that require special disclosures or amendments be made to your franchise agreement. If so, you should check the State Specific Addenda. See the Table of Contents for the location of the State Specific Addenda.

## Special Risks to Consider About This Franchise

Certain states require that the following risk(s) be highlighted:

1. Out-of-State Dispute Resolution. The franchise agreement requires you to resolve disputes with the franchisor by mediation, arbitration and/or litigation only in Iowa. Out-of-state mediation, arbitration or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate, arbitrate or litigate with the franchisor in Iowa than in your own state.

Certain states may require other risks to be highlighted. Check the "State Specific Addenda" (if any) to see whether your state requires other risks to be highlighted.

**ADDITIONAL DISCLOSURES FOR THE  
MULTISTATE FRANCHISE DISCLOSURE DOCUMENT OF  
ROTO-ROOTER CORPORATION**

The following are additional disclosures for the Multistate Franchise Disclosure Document of ROTO-ROOTER CORPORATION required by various state franchise laws. Each provision of these additional disclosures will not apply unless, with respect to that provision, the jurisdictional requirements of the applicable state franchise registration and disclosure law are met independently without reference to these additional disclosures.

**THE FOLLOWING APPLY TO TRANSACTIONS GOVERNED BY**  
**MICHIGAN FRANCHISE INVESTMENT LAW ONLY**

THE STATE OF MICHIGAN PROHIBITS CERTAIN UNFAIR PROVISIONS THAT ARE SOMETIMES IN FRANCHISE DOCUMENTS. IF ANY OF THE FOLLOWING PROVISIONS ARE IN THESE FRANCHISE DOCUMENTS, THE PROVISIONS ARE VOID AND CANNOT BE ENFORCED AGAINST YOU.

- (a) A prohibition on the right of a franchisee to join an association of franchisees.
- (b) A requirement that a franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in the Michigan Franchise Investment Act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.
- (c) A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.
- (d) A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) the term of the franchise is less than 5 years and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of franchisor's intent not to renew the franchise.
- (e) A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.
- (f) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.
- (g) A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:

(i) The failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards.

(ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.

(iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.

(iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.

(h) A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the franchise agreement and has failed to cure the breach in the manner provided in subdivision (c).

(i) A provision which permits the franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to the franchisee unless provision has been made for providing the required contractual services.

If the franchisor's most recent financial statements are unaudited and show a net worth of less than \$100,000, the franchisor shall, at the request of a franchisee, arrange for the escrow of initial investment and other funds paid by the franchisee until the obligations to provide real estate, improvements, equipment, inventory, training, or other items included in the franchise offering are fulfilled. At the option of the franchisor, a surety bond may be provided in place of escrow.

THE FACT THAT THERE IS A NOTICE OF THIS OFFERING ON FILE WITH THE ATTORNEY GENERAL DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENFORCEMENT BY THE ATTORNEY GENERAL.

Any questions regarding this notice should be directed to:

State of Michigan  
Consumer Protection Division  
Attn: Franchise  
G. Mennen Williams Building, 1<sup>st</sup> Floor  
525 West Ottawa Street  
Lansing, Michigan 48933  
Telephone Number: (517) 373-7117

## **MINNESOTA**

1. The following language is added as the last paragraph of Item 13:

The Minnesota Department of Commerce requires that we indemnify Minnesota franchisees against liability to third parties resulting from claims from third parties that your use of the Company's trademarks infringed trademark rights of the third party. We do not indemnify against the consequences of your use of our trademarks except in accordance with the requirements of the Franchise Agreement, and, as a condition to tender the defense of the claim to us. If we accept the tender of the defense, we have the right to compromise, settle or otherwise resolve the claim and to determine whether to appeal a final determination of the claim.

2. **Renewal, Termination, Transfer and Dispute Resolution**. The following is added at the end of the chart in Item 17:

With respect to franchises governed by Minnesota law, we will comply with Minn. Stat. Sec. 80C.14, Subds. 3, 4 and 5 which require, except in certain specified cases, that you be given 90 days' notice of termination (with 60 days to cure) of the Franchise Agreement and 180 days' notice for non-renewal of the Franchise Agreement.

Any release required as a condition of renewal or transfer/assignment will not apply to the extent prohibited by applicable law with respect to claims arising under Minn. Rule 2860.4400D.

## **NORTH DAKOTA**

1. The following is added to the end of the "Summary" section of Item 17(m), entitled **Conditions for our approval of transfer**:

However, any release required as a condition of assignment/transfer will not apply to the extent prohibited by the North Dakota Franchise Investment Law.

## FRANCHISE DISCLOSURE DOCUMENT FORMATS

This disclosure document is available in these formats delivered by U.S. Mail or by overnight courier service, as we determine.

1. An electronic copy of this disclosure document in PDF file format contained on a flash drive or CD. In order to view this version of the disclosure document, you must have a personal device with a USB port or a CD/DVD drive. You must have software, such as Adobe Reader installed on the personal device that permits you to view files in pdf format. To install the latest version of Adobe Reader go to <https://get.adobe.com/reader/>.
2. A bound hard copy of this disclosure document by request only.

## TABLE OF CONTENTS

ITEM		PAGE
1	THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS, AND AFFILIATES .....	1
2	BUSINESS EXPERIENCE .....	3
3	LITIGATION.....	4
4	BANKRUPTCY.....	6
5	INITIAL FEES .....	6
6	OTHER FEES.....	7
7	YOUR ESTIMATED INITIAL INVESTMENT.....	12
8	RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES .....	15
9	FRANCHISEE'S OBLIGATIONS .....	16
10	FINANCING.....	17
11	FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS, AND TRAINING.....	18
12	TERRITORY.....	19
13	TRADEMARKS.....	20
14	PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION .....	22
15	OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS.....	23
16	RESTRICTIONS ON WHAT THE FRANCHISE MAY SELL.....	24
17	RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION.....	25
18	PUBLIC FIGURES.....	29

19	FINANCIAL PERFORMANCE REPRESENTATIONS.....	29
20	OUTLETS AND FRANCHISEE INFORMATION .....	29
21	FINANCIAL STATEMENTS.....	56
22	CONTRACTS .....	56

**Exhibits**

- 1 List of State Agencies/Agents for Service of Process
- 2 Franchise Agreement
- 3 Tables of Contents - Manuals
- 4 List of Franchisees
- 5 Franchisees Who Have Left the System
- 6 Financial Statements
- 7 Disclosures/State Riders
- 8 State Effective Dates
- 9 Receipts

## Item 1

### **THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS, AND AFFILIATES**

The Franchisor is Roto-Rooter Corporation. For ease of reference, Roto-Rooter Corporation will be referred to as "we", "us" or "Roto-Rooter" in this Disclosure Document. We will refer to the person or entity who buys the franchise as "you" throughout the Disclosure Document. If you are a corporation, certain provisions of the agreements also apply to your owners and will be noted.

In 1935, Samuel O. Blanc founded a business in Des Moines, Iowa manufacturing equipment used for cleaning sewers and drains. This business was incorporated on February 13, 1936, as Roto-Rooter Corporation. Roto-Rooter Corporation began licensing independent businesspersons in 1936 to use the System and the Marks (defined below) in the operation of their sewer and drain cleaning business.

On July 8, 1980, Chemed Corporation ("Chemed"), a Delaware corporation whose principal place of business is 2600 Chemed Center, 255 East Fifth Street, Cincinnati, Ohio 45202-4726 acquired the business of Roto-Rooter Corporation via merger. On that date Chemed RR Company, a wholly owned subsidiary of Chemed, was incorporated in Iowa and merged with Roto-Rooter Corporation. We then changed our corporate name to Roto-Rooter Corporation.

From July, 1980 to August, 1984 we were a 100% owned subsidiary of Chemed. In August, 1984, Chemed transferred all our stock to Roto-Rooter Group, Inc. which is now a wholly owned subsidiary of Chemed. Roto-Rooter Group, Inc.'s principal place of business is Suite 2600, 255 East Fifth Street, Cincinnati, Ohio 45202-4725.

We do business under our corporate name and under the names "Roto-Rooter" and "Duracable Manufacturing Company." Our business address is 300 Ashworth Road, West Des Moines, Iowa 50265. Our agents for services of process are disclosed in **Exhibit 1**.

We grant franchises for Roto-Rooter Businesses (defined below). We also manufacture and distribute certain equipment and products to our franchisees and others. We do not operate businesses of the type franchised but a company under common control with us, Roto-Rooter Services Company ("Roto-Rooter Services") operates similar businesses under an agreement with us.

The Roto-Rooter franchise which we offer is for qualified persons to operate a business (the "Business") offering and performing authorized sewer, drain and pipe cleaning services (the "Services") to the public within a prescribed geographic market area (the "Territory") following the methods and techniques we disclose (the "System") and under the trademarks and service marks we license from time to time, including the trademark "Roto-Rooter" (the "Marks"). You are not required to offer septic tank cleaning, plumbing repair,

pipe inspection services, water restoration services and other services we authorize in writing but may, at your option, do so. To the extent you offer those other services, the term "Services" as used in this Disclosure Document includes those services. You may not offer any other services under the Marks or using the System.

If you are a new Roto-Rooter franchisee or an existing Roto-Rooter franchisee scheduled for renewal from the date of the Disclosure Document, you must sign the new form of franchise agreement. The terms of the 2022 Agreement vary in several respects from the 2017 Agreement, and where appropriate those differences are noted in this Disclosure Document. Otherwise, references to the "Franchise Agreement" and all disclosures in this Disclosure Document describe terms and conditions that are the same under the 2017 Agreement.

You will be competing with other local companies who perform sewer, drain and pipe cleaning services and with plumbers and other individuals who provide similar services. You may also compete with national or regional companies who perform similar services or franchise or license others to do so. The market for the Services is developed in most areas and primarily consists of single and multiple family dwellings. Commercial, industrial and governmental customers also utilize the Services.

There are many federal, state and local regulations specific to the operation of a sewer, drain and pipe cleaning business regarding environmental matters and other aspects of your Business. You will also be subject to state and local licensing laws, codes and regulations, particularly as they relate to the operation of a plumbing business and certain types of water restoration work, such as mold remediation. For certain Services, such as septic pumping, you are subject to federal, state and local environmental health and sanitation laws and requirements. There may be other laws applicable to the Business and we urge you to make further inquiries about these laws.

We have offered the franchises similar to the franchise described in this Disclosure Document since the merger in 1980. Our predecessor offered similar businesses from 1936 until the merger. Roto-Rooter Services has operated similar businesses since the late 1930's. Except as described, we do not now, and neither we nor any predecessors or affiliates have ever offered franchises in any other lines of business which are required to be disclosed in this disclosure document.

## Item 2

### **BUSINESS EXPERIENCE**

#### Thad Reinhard – President

Mr. Reinhard was appointed our President in January 2018. He was Director of Plumbing for Roto-Rooter Services Company from September 2017 to January 2018. Prior to that, Mr. Reinhard was with Ferguson Enterprises from 1998 - 2017. He was Showroom and Area Sales Manager from 2013 - to 2017. From 2000 – 2012, he was in Residential and Commercial Plumbing Sales and in Sales Management from 1998 to 1999.

#### Spencer S. Lee – Director

Mr. Lee became our Director in 1999. Since 1999 he has been Chief Executive Officer of Roto-Rooter Group, Inc. From 1997 - 1999 he was a Senior Vice-President with Roto-Rooter Services Company. From 1985 - 1997 he was a Regional Vice-President with Roto-Rooter Services Company. From 1982 – 1985 he was an assistant Regional Manager and in 1981 was the Director of Development for Roto-Rooter Services Company. In 1980 he was Assistant to the President of Chemed Corporation.

#### Kevin J. McNamara - Director

Mr. McNamara became our Director in 1996. He has been Vice Chairman of Roto-Rooter Group, Inc. since 1994 and was its Secretary and General Counsel during 1986 - 1994. Mr. McNamara has been Chief Executive Officer since May 2001 and President of Chemed Corporation since 1994, and served as its Executive Vice President during 1993-1994, its Vice Chairman during 1986 - 1992 and its General Counsel and Secretary from 1986 - 1994.

### Item 3

#### LITIGATION

Roto-Rooter Corporation's ultimate parent corporation, Chemed Corporation, also owns Vitas Healthcare Corporation.

On October 30, 2017, Chemed entered into a settlement agreement to resolve civil litigation under the False Claims Act brought by the United States Department of Justice ("DOJ") on behalf of the OIG and various relators concerning VITAS, filed in the U.S. District Court of the Western District of Missouri. The Company denied any violation of law and agreed to settlement without admission of wrongdoing.

In connection with the settlement, VITAS and certain of its subsidiaries entered into a corporate integrity agreement ("CIA") on October 30, 2017. The CIA formalizes various aspects of VITAS' already existing Compliance Program and contains requirements designed to document compliance with federal healthcare program requirements. It has a term of five years during which it imposes monitoring, reporting, certification, oversight, screening and training obligations, certain of which had previously been implemented by VITAS. It also requires VITAS to engage an Independent Review Organization to perform audit and review functions and to prepare reports regarding compliance with federal healthcare programs. In the event of breach of the CIA, VITAS could become liable for payment of stipulated penalties or could be excluded from participation in federal healthcare programs.

Alfred Lax ("Lax"), a current employee of Roto-Rooter Services Company ("RRSC") filed a class action lawsuit in Santa Clara County Superior Court in November 2018 alleging (1) failure to provide or compensate for required rest breaks; (2) failure to properly pay for all hours worked; (3) failure to provide accurate wage statements; (4) failure to reimburse for work-related expenses; and (5) unfair business practices. Lax stated these claims as a representative of a class defined as all service technicians employed by RRSC in California during the four years preceding the filing of the complaint. The lawsuit is, *Alfred Lax on behalf of himself and all others similarly situated v. Roto-Rooter Services Company and Does 1 through 50 inclusive*; Santa Clara County Superior Court Case Number 18CV338652. The Company entered into a settlement agreement in August 2020 to resolve the allegations, for a settlement amount of \$2.6 million plus employment taxes. The settlement includes technicians in its Menlo Park and Bristol locations. The settlement was recorded in the third quarter of 2020. Final approval of the settlement was granted in the first quarter of 2021 and the settlement was paid.

On October 16, 2020, VITAS received a Civil Investigative Demand ("CID") issued by the U.S. Department of Justice pursuant to the False Claims Act concerning allegations of the submission of false claims for hospice services for which reimbursement was sought from federal healthcare programs, including Medicare. The CID has

requested information regarding 32 patients from our Florida operations. We are cooperating with the U.S. Department of Justice with respect to this investigation. The Company cannot predict when the investigation will be resolved or the outcome of the investigation.

Vitas is one of a group of hospice providers selected by the OIG's Office of Audit Services ("OAS") for inclusion in the audit of the provision of elevated level-of-care hospice services to a sample of patients. At the audit's conclusion, we expect the OAS will make certain recommendations to CMS, which will be published on the OIG website, and may include repayment of Medicare funds received for elevated care of certain patients in the sample as well as extrapolated amounts based upon the incidence of claims within the sample. These extrapolated amounts may appear material. Any claims pursued by CMS will proceed in accordance with the standard reconsideration and appeals process for claims that arise out of CMS audits. The Company cannot predict the eventual outcome, or reasonably estimate any potential loss, from any such claims at this time.

Regardless of the outcome of any of the preceding matters, dealing with the various regulatory agencies and opposing parties can adversely affect us through defense costs, potential payments, withholding of governmental funding, diversion of management time, and related publicity. Although the Company intends to defend them vigorously, there can be no assurance that those suits will not have a material adverse effect on the Company.

Other than the action described above, no litigation is required to be disclosed in this Disclosure Document.

#### **Item 4**

### **BANKRUPTCY**

No person previously identified in Items 1 or 2 of this Disclosure Document has been involved as a debtor in proceedings under the U.S. Bankruptcy Code (or comparable foreign law) required to be disclosed in this Item.

#### **Item 5**

### **INITIAL FEES**

You are required to pay an initial franchise fee upon signing the Franchise Agreement of \$0.15 per person within the Territory identified in the Franchise Agreement with a minimum initial franchise fee of \$25,000. The Initial Franchise Fee is deemed fully earned and non-refundable upon payment. We do not currently charge a fee upon the expiration of the Franchise Agreement and the signing of a renewal on the latest agreement form. We may charge a fee in the future. If we charge a fee in the future to renew the franchise agreement, we will amend this document with the various Federal and State agencies to reflect this change.

As described in Item 8, certain required items may be purchased from us or our affiliates. Some of these items would be included as part of your equipment package and opening inventory and therefore might be purchased from us prior to opening. The amount would vary but would generally range from \$9,000 to \$34,200. See Item 7 for a more detailed discussion of your initial investment.

**Item 6**

**OTHER FEES**

<b>Name of Fee<sup>1</sup></b>	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Monthly Franchise Fee	From \$480 to \$36,000+ per month based on population formula <sup>2</sup> which increases every January 1 <sup>3</sup> .	Payable on the 1st day of the month, in advance.	Adjustable annually based on change in CPI and water restoration. May be reduced by rebates we provide. <sup>6</sup> Adjusted every 5-years for changes in population. On renewal, adjusted for Roto-Rooter's industry specific pricing inflation and increases in market penetration.
Transfer	1½% of the total sale price, with a minimum of \$1,000 and not to exceed \$7,500	Prior to consummation of transfer	Payable when the Franchise Agreement or any interest in you or it is transferred.
Renewal Fee	Currently we do not charge any fee although we have the right to do so.		
Indemnification	Will vary under circumstances	As incurred	You have to indemnify and hold us, our affiliates, officers, agents and employees harmless from all loss or damage, liability, cost and expense arising out of a violation of the Franchise Agreement by you and from all claims made by third parties in connection with the operation of your Business.

Name of Fee <sup>1</sup>	Amount	Due Date	Remarks
Local Advertising <sup>4</sup>	You must spend not less than; 10.07¢ per person in 2022; 10.32¢ per person in 2023; 10.58¢ per person in 2024; 10.84¢ per person in 2025; 11.11¢ per person in 2026, 11.38¢ per person in 2027, 11.65¢ per person in 2028, 11.92¢ per person in 2029, 12.22¢ per person in 2030 and 12.52¢ per person in 2031.	Must be spent annually by you. If you fail to do so, you must pay to us, within 14 days after the end of the Agreement Year, the amount you did not spend. It will be spent nationally by us.	You must submit required reports documenting your expenditures at the times and in the manner we request <sup>5</sup>
Administrative Fees	Add partner - \$200.00; Drop partner - \$200.00; Change of stock ownership - \$200.00.	Prior to consummation of ownership change	

Name of Fee <sup>1</sup>	Amount	Due Date	Remarks
Equipment Purchases	Will vary under circumstances	If purchased from us, Net 30 days with approved credit plus a 5% rebate towards franchise fees if payments are received within 30 days of date of invoice. Not required to be purchased from us (See Item 8) <sup>6</sup>	

1/ All fees are imposed by and payable to us. All fees are non-refundable.

2/ During the first 12 months of the term of this Agreement the Monthly Franchise Fee shall be the product of the Territory's most recently determinable population ("MRDP") multiplied by the Franchise Fee per Population ("FFP"). During the first 12 months of the term of this Agreement the FFP will be \$436.29 per month per 100,000 population or any portion thereof on the first 500,000 of population; \$413.31 per month per 100,000 population or any portion thereof on the second 500,000 of population; and \$390.37 per month per 100,000 population or any portion thereof on any remaining population over 1,000,000. The FFP in the first year of this Agreement is also referred to as the "Initial FFP". The FFP in each event will include the tiering calculation of the first 500,000 of population ("Tier 1"), the second 500,000 of population ("Tier 2") and all population in excess of 1,000,000 ("Tier 3").

Each tier of the Initial FFP for the first 12 months of the term of this Agreement shall be adjusted as follows: the Initial FFP per 100,000 population or any portion thereof on the first 500,000 of population shall be increased by **10%** (the "Tier 1 Percentage Increase"); the Initial FFP per 100,000 population or any portion thereof on the second 500,000 of population shall be increased by **25%** (the "Tier 2 Percentage Increase"); and the Initial FFP per 100,000 population or any portion thereof on any remaining population over 1,000,000 shall be increased by **30%** (the "Tier 3 Percentage Increase"); *provided*, that if at any time during a calendar year, less than one-half of then-existing Company-owned and operated Roto-Rooter Services Company units are providing Water Restoration Services, for the following calendar year, the Tier 1 Percentage Increase shall be reduced to **5%**, the Tier 2 Percentage Increase shall be reduced to **10%**, and the Tier 3 Percentage Increase shall be reduced to **15%**; *provided further*, that if at all times during a calendar year one-half or more of then-existing Company-owned and operated

Roto-Rooter Services Company units are providing Water Restoration Services, for the following calendar year and thereafter (subject to subsequent reductions on the terms of the immediately preceding proviso), the Tier 1 Percentage Increase shall revert to **10%**, the Tier 2 Percentage Increase shall revert to **25%**, and the Tier 3 Percentage Increase shall revert to **30%**. For such purposes, each Roto-Rooter Services Company branch will be considered a Company-owned unit even if there are multiple office and warehouse locations operated by that branch.

The Monthly Franchise Fee shall be rounded up or down to the nearest \$5.00. The minimum Monthly Franchise Fee for the first 12 months of the term of this Agreement is \$480.00. Thereafter, the Monthly Franchise Fee will be adjusted using the method described in footnote 3 below.

The principal source used for population data is the United States Census Bureau for all territory located within the United States. For territory located outside of the United States, an equivalent source will be used for the country where the population is located.

3/ Effective on each anniversary of this Agreement, Company will recalculate the Monthly Franchise Fee. This recalculation will adjust the FFP in proportion to the increase or decrease in the U.S. Consumer Price Index For All Urban Consumers (U.S. All City average; 1982-84 = 100) (the "Index") during the preceding calendar year (the "Adjusted FFP").

Company shall calculate each Adjusted FFP by multiplying the Initial FFP by a fraction, the numerator of which is the Index for December of the most recently completed calendar year and the denominator of which is the Index for the month of December of the calendar year next preceding the year in which this Agreement became effective. The Adjusted FFP will then be multiplied by the MRDP (which shall be subject to adjustment once every five (5) years as described below) to determine the recalculated Monthly Franchise Fee. The recalculated Monthly Franchise Fee shall be rounded up or down to the nearest \$5.00.

The Adjusted FFP shall be adjusted as follows: the Adjusted FFP per 100,000 population or any portion thereof on the first 500,000 of population shall be increased by **10%** (the "Tier 1 Percentage Increase"); the Adjusted FFP per 100,000 population or any portion thereof on the second 500,000 of population shall be increased by **25%** (the "Tier 2 Percentage Increase"); and the Adjusted FFP per 100,000 population or any portion thereof on any remaining population over 1,000,000 shall be increased by **30%** (the "Tier 3 Percentage Increase"); *provided*, that if at any time during a calendar year, less than one-half of then-existing Company-owned and operated Roto-Rooter Services Company units are providing Water Restoration Services, for the following calendar year, the Tier 1 Percentage Increase shall be reduced to **5%**, the Tier 2 Percentage Increase shall

be reduced to **10%**, and the Tier 3 Percentage Increase shall be reduced to **15%**; *provided further*, that if at all times during a calendar year one-half or more of then-existing Company-owned and operated Roto-Rooter Services Company units are providing Water Restoration Services, for the following calendar year and thereafter (subject to subsequent reductions on the terms of the immediately preceding proviso), the Tier 1 Percentage Increase shall revert to **10%**, the Tier 2 Percentage Increase shall revert to **25%**, and the Tier 3 Percentage Increase shall revert to **30%**. For such purposes, each Roto-Rooter Services Company branch will be considered a Company-owned unit even if there are multiple office and warehouse locations operated by that branch.

If an Index figure is not available before an applicable adjustment date, Company will use an estimate of the Index until the official Index figure becomes available. If the Index is discontinued or modified, the most nearly equivalent Index published by the U.S. government will be used to compute the Monthly Franchise Fee.

Consistent with the understanding that the MRDP shall be updated once every five years, Company will update the MRDP effective as of the first day in the first month of the sixth year of this Agreement to the most recently determinable population of the Franchisee's Territory and shall use the updated MRDP to recalculate the Monthly Franchise Fee under the procedures described above for the sixth through tenth year of this Agreement.

- 4/ Must be spent on telephone directories, internet marketing, direct mail, media broadcasting, and trade show marketing materials for advertising the System and the Marks. Internet marketing includes paid online local advertising, including local yellow pages advertising and local pay per click. Media broadcasting includes local television, radio, outdoor billboards and direct mail or other advertising media that conveys the Roto-Rooter trademark within the Territory. An additional type of evolving media is the cost of e-scheduling on rotorooter.com.
- 5/ Each successive 12-month period beginning on the effective date of the Franchise Agreement.
- 6/ The franchisee shall be offered a 5% discount for any Roto-Rooter branded products purchased by franchisee from Roto-Rooter Corporation, net of any other discounts, taxes, shipping cost and returns. In order to qualify for the discount, Roto-Rooter Corporation must receive payment in full for such purchase within 30 days of the invoice date. The discount will be given in the form of a reduction on the purchase invoice and will be considered a rebate of franchise fees.

**Item 7**

**YOUR ESTIMATED INITIAL INVESTMENT (1)**

<b>Expenditures</b>	<b>Estimated Amount or Estimated Low-High Range</b>	<b>When Payable</b>	<b>Method of Payment</b>	<b>Whether Refundable</b>	<b>To Whom Paid</b>
Initial Franchise Fee (2)	\$25,000 to \$75,000	On signing Franchise Agreement	Lump Sum	No	Us
Motor Vehicle (3)	\$12,000 to \$42,000	As Incurred	As Agreed	No	Outside Suppliers
Real Estate (4)					
Opening Equipment and Parts Inventory and Supplies (5)	\$9,000 to \$34,200	As Incurred	As Agreed	No	Us or Outside Suppliers
Advertising (6)	\$17,870 to \$81,550	As Incurred	Lump Sum or Installments	No	Advertising Sources
Miscellaneous Opening Costs (7)	\$12,000 to \$15,000	As Incurred	As Incurred	No	Third Parties
Additional Funds - 3 months (8)	\$10,000 to \$12,000	As Incurred	As Incurred	No	Third Parties
<b>TOTAL ESTIMATED INITIAL INVESTMENT (9)</b>	\$85,870 to \$259,750				

## Notes

1. The expenditures for this initial investment table are estimates for a start-up territory with a population of 100,000 – 500,000 people. It is assumed that the only Services you would provide to customers in this initial phase of operation are sewer, drain and pipe cleaning services. It is assumed you will personally perform cleaning services during the initial phase of your operations.

2. The initial franchise fee is \$0.15 per person within the Territory identified in the Franchise Agreement with a minimum initial franchise fee of \$25,000.

3. A motor vehicle, typically a van, is required to operate the Business. The vehicle need not be new but must be in good operating condition and repair, clean, painted white and properly identified with the required van markings. If you already own such a vehicle, no additional expenditure would be required, other than to paint and to identify the vehicle. The vehicle cost range varies depending on whether or not you already own the vehicle, purchase a used vehicle or purchase a new vehicle.

4. Most franchisees generally begin operations with one van or truck and operate out of their residence and no additional expenditure is required. The Franchise Agreement requires that you maintain an office and service facility. If you desire to lease or purchase a facility from which to operate the Business, approximately 1,200 square feet of office and storage area would be adequate for up to a three-truck operation. The costs of a facility will vary greatly, depending on condition of the facility, location and other factors. We are unable to estimate the costs associated with your lease or purchase of office space. The amount of the first month's rent and security deposit will depend on the area of the country in which the Business is located, the size, condition and location of the premises, the availability and demand for the premises among prospective lessees. If a building is purchased or constructed **Explanatory** rather than leased, you will incur additional capital or financing costs, or both. We cannot estimate these costs. They will be determined by market conditions and other factors.

5. You are required to have a television and a DVD playback machine for the viewing of training videos and must have the equipment and parts necessary to perform the Services. The cost of equipment and parts which we would recommend for a business utilizing one truck is estimated to be between about \$9,000 to about \$34,200. This cost may be lower if you already own some of the equipment items or buy used equipment.

The equipment, parts and cable may, at your option, be purchased from us or from any other source. Payment is normally required at the time of purchase. As described in Item 10, neither we nor our affiliates offer financing to you.

6. You are required by the Franchise Agreement to advertise as described in Item 6. If you have more than one Roto-Rooter territory, you may combine your territories and allocate the combined minimum expenditures among your territories as you deem

appropriate. Minimum local advertising expenditures are calculated based on the population within your Territory. If the Territory has a population of 100,000 – 500,000, the minimum will range from about \$10,070/year to \$50,350/year. You may advertise in the Yellow Pages of telephone books in the Territory. Yellow Pages costs vary depending on publishers' rates, ad size, color and other factors. Yellow Pages costs in the first year of operation may range from \$3,600 - \$27,000 if the Territory has a population of 100,000 – 500,000. In addition, we estimate you could elect to spend up to an additional \$4,200 for advertising during your first year of operation. This would include media advertising above the minimum described in Item 6.

7. This item covers miscellaneous opening costs and expenses, such as installation of telephones, deposits for gas, electricity and related items, business licenses, legal and accounting expenses, insurance premiums and retention of an answering service and paging device.

8. This item estimates your initial start-up expenses for a 3-month period. These expenses include payroll costs, but do not include any draw or salary for you. These figures are estimates, and we cannot guarantee that you will not have additional expenses starting the business. Your costs will depend on factors such as how much you follow our methods and procedures; your management skill, experience and business acumen; local economic conditions; the local market for your products and services; the prevailing wage rate; competition; the sales level reached during the initial period and whether you perform the services personally.

9. We relied on more than 85 years of experience in this business of us or our predecessors and affiliates to compile these estimates and on information we have obtained from our franchisees. As described in footnote 1, this estimate is for a start-up territory with a population of 100,000 – 500,000. The population of your Territory may vary substantially and would change certain described expenditures (see Item 6). You should review these figures carefully with a business advisor before making any decision to purchase the franchise. Except as described in Item 10 with respect to certain equipment purchases, we do not offer financing directly or indirectly for any other part of the initial investment. The availability and terms of financing will depend on factors such as the availability of financing generally, your creditworthiness, collateral you may have and lending policies of financial institutions. The estimate does not include any finance charge, interest or debt service obligation.

## Item 8

### **RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES**

You are required to use, in performing the Services, certain required van markings and uniform patches. These may be obtained from us or from other sources. Although not required to do so, most of our franchisees purchase their requirements of these items from us.

In the year ending December 31, 2021, our revenue from the sale of these items to our franchisees was \$762,924, and our total revenue was \$42.6 million. All of your required purchases represent 1.8% of our total revenue and 1% to 2% of your total purchases in connection with the establishment of your Business and 9% or less of your overall purchases in operating the Business. Our revenue figures were derived from our sales records used in preparing our profit and loss statement.

We do not designate particular suppliers from which van markings and uniform patches may be purchased but will notify franchisees, upon written request, whether any item is approved. We currently do not maintain a list of approved suppliers nor do we currently maintain criteria for approving suppliers. Any van markings or uniform patches that do not deviate from our specifications are, in effect, an approved item. None of our officers own an interest in any suppliers.

Neither we nor our affiliates receive any payments from any suppliers because of their transactions with our franchisees, although we reserve the right to do so. We do not negotiate purchase arrangements with suppliers for your benefit although from time to time we may arrange for discounted prices for our franchisees. We will give you a rebate on purchases of Roto-Rooter products, equipment and supplies you have ordered and continue to order from us. The rebate is 5% of the amount you pay for these purchases net of all discounts, taxes, shipping costs and returns, and will be applied to the related qualifying product invoice. No rebate will be given for any such purchases we have not received payment for within 30 days of the date of the invoice or bill. Except for the rebate described above, we do not provide any material benefits to you based on your use of designated or approved sources. There are no purchasing or distribution cooperatives.

You are required to carry insurance for bodily injury and property damage in a minimum amount equal to at least \$1,000,000 single limit coverage. If you perform water restoration services, you are also required to carry Contractor's Pollution Liability (CPL) insurance coverage by a carrier with no less than an A- VIII rating by A.M. Best. We endorse insurance programs administered by Dawson Companies, formerly Luce, Smith and Scott, Franchise Insurance, but you may purchase the required coverage from any supplier. We do not name us as an additional insured on your policy. Upon request, you must furnish us

evidence of this insurance containing an endorsement that the policy or coverage may not be canceled without 30 days' notice to us.

We have reserved the right to approve all your advertising in advance and to establish rules, standards and procedures regarding the content, form and manner of advertising the System and the Marks.

**Item 9**

**FRANCHISEE'S OBLIGATIONS**

**This table lists your principal obligations under the franchise and other agreements. It will help you find more detailed information about your obligations in these agreements and in other items of this disclosure document.**

<b>Obligation</b>	<b>Section in Franchise Agreement</b>	<b>Item in Disclosure Document</b>
(a) Site selection and acquisition/lease	Section 2(d)	Item 7
(b) Pre-opening purchases/leases	Section 9	Items 5 and 8
(c) Site development and other pre-opening requirements	None	
(d) Initial and ongoing training	None	
(e) Opening	None	
(f) Fees	Section 4	Items 5, 6 and 7
(g) Compliance with standards and policies/Operations Manual	Section 6	Items 11 and 16
(h) Trademarks and proprietary information	Sections 1 and 8	Items 13 and 14
(i) Restrictions on products/services offered	Sections 1, 6 and 9	Items 8, 11 and 16
(j) Warranty and customer service requirements	Section 6(d)	

<b>Obligation</b>	<b>Section in Franchise Agreement</b>	<b>Item in Disclosure Document</b>
(k) Territorial development and sales quotas	Section 2	Item 12
(l) On-going product/service purchases	Section 9	Item 8
(m) Maintenance, appearance and remodeling requirements	Section 6	
(n) Insurance	Section 11	Items 7 and 8
(o) Advertising	Sections 2(a) and 7	Items 6, 7, 8 and 11
(p) Indemnification	Section 10	Item 6
(p) Owner's participation/management/staffing	Section 16	Item 15
(q) Records/reports	Sections 6(g) and 7(f)	Item 6
(r) Inspections/audits	Sections 6(g), 6(h) and 6(i)	Item 6
(s) Transfer	Section 14	Item 17
(t) Renewal	Section 15	Item 17
(u) Post-termination obligations	Section 13	Item 17
(v) Non-competition covenants	Section 16	Item 17
(w) Dispute resolution	None	Item 17

### **Item 10**

### **FINANCING**

Neither we nor our affiliates offer, either directly or indirectly, any financing arrangements.

## **Item 11**

### **FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS AND TRAINING**

**Except as listed below, we are not required to provide any assistance to you under the Franchise Agreement:**

Before you open the Business, we will:

(a) Pursuant to Paragraph 9 of the Franchise Agreement, we will make available for purchase at your option the current Roto-Rooter brand equipment and parts line at prices and terms then prevailing. You will receive a rebate from us on these purchases, as described in Item 8.

During your operation of the Business, we will:

(a) Pursuant to Paragraph 9 of the Franchise Agreement, we will make available for purchase at your option the current Roto-Rooter brand equipment and parts line at prices and terms then prevailing. You will receive a rebate from us on these purchases, as described in Item 8.

(b) Pursuant to Paragraph 5 of the Franchise Agreement, we will provide you with those management, engineering and research services and advice concerning the System, the use and display of the Marks and your operation of the Business, which we make available to our franchisees generally, and we will provide advice and instructions to you with respect to the proper use of the System and the Marks. If you perform water restoration services, we may provide training and certifications for an additional fee.

(c) Pursuant to Paragraph 5 of the Franchise Agreement, each year we will spend an amount equal to at least 15% of the aggregate monthly franchise fees we receive from all our United States and Canadian franchisees during the preceding year for market research, advertising and promotion of the Marks and the Services on a national scale, and for the development and production of advertising and (promotional material to be available to all our franchisees in promoting sales of Services under the Marks. However, the nature, type and coverage of such expenditures are solely within our discretion and such national advertising and promotion may or may not appear in your Territory.

(d) Pursuant to Paragraph 8 of the Franchise Agreement, we will consult our franchisees before implementing substantial changes in the trade dress of the System.

(e) Pursuant to Paragraph 8 of the Franchise Agreement, we will reimburse you for your reasonable out-of-pocket expenses in connection with certain trademark litigation in which we ask you to participate.

We are not obligated to maintain or administer an advertising fund. You are not required to participate in a local or regional advertising cooperative. You are not required to buy or use any particular electronic cash register or computer system. Attached as **Exhibit 3** are the tables of contents of the manuals we provided franchisees as of our most recent fiscal year end. We may provide a manual for water restoration services. You select the site for your Business in the Territory and we have no approval rights.

We estimate that there will be an interval of 1 to 12 months between the execution of the Franchise Agreement and your commencing Business, but the interval may vary based upon factors such as the delivery schedule for equipment and vehicles, hiring personnel and placement of advertising. We do not require any formal initial training program prior to opening nor are any additional training programs required once you have commenced operations.

## **Item 12**

### **TERRITORY**

You must operate your Business within the Territory identified in the Franchise Agreement. The Territory is typically described by city or county and is written in the Franchise Agreement. You do not receive the right to acquire additional franchises. You must notify us of the office you maintain but we have no prior right of approval. Neither we nor an affiliate will grant another license or franchise for the purpose of conducting sewer, drain and pipe cleaning services using the Marks in the Territory, nor will we or our affiliate perform the Services using the Marks in the Territory.

The Territory will not be altered even if there is a population increase. It will not be affected by your sales volume, market penetration or other contingency.

The Franchise Agreement requires you to conduct local advertising. You may place advertisements or listings in telephone directories covering and distributed in the Territory. If a telephone directory is usually and customarily distributed both within and outside of the Territory, your advertisements must specify the Territory in not less than eight-point type. You may not place listings or advertisements in telephone directories which are usually and customarily distributed only outside the Territory. You are only authorized to sell and solicit Services within the Territory using the Marks. You are prohibited from rendering Services at any location outside the Territory using the Marks, unless you are acting as a subcontractor to another franchisee for a particular job billed by the other franchisee.

We, or an affiliate or anyone authorized by us or an affiliate, may sell any products identified by the Marks or different trademarks and trade names in the Territory whether or not the products are the same or similar to any products you sell.

We, or an affiliate or anyone authorized by us or an affiliate, may operate businesses anywhere, including in the Territory that sell the same or similar services as the Services or any other services under a different trademark or trade name or sell other services under the Marks.

### **Item 13**

#### **TRADEMARKS**

Under the Franchise Agreement, we grant you the right to use the Marks in connection with the operation of the Business. Our primary trademarks to be used by you to identify the business include the following:

"ROTO-ROOTER"  
Reg. No. 597,721  
Reg. Date: 11/02/54  
Renewed: 11/02/14

"ROTO-ROOTER" and Design  
Reg. No. 745,984  
Reg. Date: 02/26/63  
Renewed: 02/26/13

"RAZOR KLEENS"  
Reg. No. 800,523  
Reg. Date: 12/14/65  
Renewed: 12/14/15

"AND AWAY GO TROUBLES DOWN THE DRAIN"  
Reg. No. 1,020,089  
Reg. Date: 09/09/75  
Renewed: 09/09/15

"ROTO-ROOTER"  
Reg. No. 1,199,063  
Reg. Date: 06/22/82  
Renewed: 06/22/12

"ROTO-ROOTER"  
Reg. No. 1,221,194  
Reg. Date: 12/21/82  
Renewed: 12/21/12

"ROTO-ROOTER" and Design Reg. No. 1,270,267 Reg. Date: 03/13/84 Renewed: 03/13/14	"ROTO-ROOTER" and Design Reg. No. 1,241,460 Reg. Date: 06/07/83 Renewed: 06/07/13
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"ROTO-ROOTER" Reg. No. 4,599,688 Reg. Date: 09/09/14	"ROTO-ROOTER" and Design Reg. No. 4,599,689 Reg. Date: 09/09/14
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"ROTO-ROOTER" and Design Reg. No. 5,405,935 Reg. Date: 02/20/18	"ROTO-ROOTER" and Design Reg. No. 5,405,934 Reg. Date: 02/20/18
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"ROTO-ROOTER" and Design Reg. No. 5,485,203 Reg. Date: 06/05/18	"ROTO-ROOTER" and Design Reg. No. 5,474,783 Reg. Date: 05/22/18
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"ROTO-ROOTER" and Design  
Reg. No. 5,485,300  
Reg. Date: 06/05/18

All required affidavits of use have been filed. All of the above Marks are registered on the Principal Register.

There are no currently effective material determinations of the United States Patent and Trademark Office, the Trademark Trial and Appeal Board, the trademark administrator of any state or any court, nor are there any pending infringement, opposition or cancellation proceedings or material litigation, involving the Marks. There are no other agreements currently in effect which significantly limit our right to use or license the use of the Marks in any manner material to the franchise.

You may use the Marks only in the way and where we say and only in connection with the sale and performance of Services we expressly authorize in writing. You shall promote and identify the Services in the Territory and only in the Territory and shall not use the Marks in connection with the sale or lease of unauthorized products or services. On receipt of notice from us that the Marks are being used in an unauthorized manner, you must immediately cease the unauthorized use. You may not alter or add to the form or content of the Marks in any manner nor use the mark "Roto-Rooter" or any colorable imitation of it in any corporate or trade name. On receipt of our prior written consent and performance by you of conditions we specify, you may include "Roto-Rooter" as part of a fictitious name filing required by state law. You may not file or acquire any registration (state

or federal) for the Marks or any trademark or service mark (or variation thereof) confusingly similar to the Marks. We reserve the right to alter or replace the principal identifying characteristics of the Business, including the trade dress and principal trademark and service mark identification of the Services and of the Business as franchised by the Franchise Agreement. We will not however withdraw the license to use the "Roto-Rooter" trademark. We will consult our franchisees before implementing substantial changes in the trade dress of the System. You must make these changes on notice from us. You shall prominently identify yourself in your office and on your forms and advertisements as an independent business operated under a license from us in the form and content as we may direct.

You must advise us of all uses by others of names, symbols and devices comprising, consisting of, or similar to the name "Roto-Rooter" or any of the Marks, including any variations or colorable imitations of them. We will solely determine whether these uses are unauthorized uses and whether action should be commenced to curtail these uses. All lawsuits and actions for trademark infringement or dilution and/or unfair competition shall be brought by us; however, if we request, you must consent to be named as a party in any lawsuit or action and lend your full cooperation and assistance in the preparation and prosecution of such lawsuit or action. We will reimburse you for all reasonable out-of-pocket expenses incurred by you at our request in regard to the foregoing. You may not institute any legal action alleging infringement of the Marks. You are specifically prohibited from charging other entities with infringement, from initiating suit for infringement, or dilution of the Marks.

We do not actually know of either superior prior rights or infringing uses that could materially affect your use of the principal trademarks in any state.

#### **Item 14**

#### **PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION**

There are no patents that are material to the franchise. We claim copyright protection of our written materials, videotapes and related materials although these materials have not been registered with the United States Registrar of Copyrights. The written materials, videotapes and related materials are considered proprietary and confidential and are considered our property and may be used by you only as provided in the Franchise Agreement.

There currently are no effective determinations of the Copyright Office (Library of Congress) or any court regarding any of the copyrighted materials. There are no agreements in effect which significantly limit our right to use or license the copyrighted materials. Finally,

there are no infringing uses actually known to us which could materially affect your use of the copyrighted materials in any state. We are not required by any agreement to protect or defend copyrights.

We will grant you a license to use certain confidential or proprietary materials in connection with the advertising and sale of the Services under the Marks. Any information, knowledge, or know-how, including without limitation, drawings, materials, equipment, marketing, videotapes, and other data, which we designate as confidential will be deemed confidential for purposes of the Franchise Agreement.

### **Item 15**

#### **OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS**

We require that you or your majority owners be in active and full-time charge of the Business. This does not require corporate, partnership or individual owners to participate in on-premises supervision, although on-premises supervision is recommended. The Franchise Agreement does not restrict you as to whom you can hire to conduct on-premises supervision. Your manager is not required to attend a training program or maintain any equity interest in you. We must be informed of the identity of your manager. We do not require you to place any restrictions on your manager.

If you are a corporation or partnership, your principal shareholders or partners must personally guarantee your obligations under the Franchise Agreement and also agree to be personally bound by, and personally liable for the breach of, every provision of the Franchise Agreement.

## **Item 16**

### **RESTRICTIONS ON WHAT THE FRANCHISE MAY SELL**

You must offer, sell and perform sewer, drain and pipe cleaning services in the Territory using the System and the Marks. You may also, but are not required to, offer, sell and perform septic tank cleaning services, plumbing repair services, pipe inspection services, and water restoration services using the System and the Marks. You cannot offer, sell or perform any other services using the System or the Marks (see Items 8 and 9). We have no right to change the types of authorized Services you are required to perform during the term of the Franchise Agreement, but we may do so on renewal.

You must comply at all times with our service standards. You and your owners may not have any interest in another business that provides residential sewer drain and pipe cleaning services in the Territory and/or an adjoining county.

We place no restrictions upon your ability to provide Services to any customers provided you do so in conjunction with the Marks and only within the Territory, unless you are performing Services in the territory of another franchisee as a subcontractor to the other franchisee for a particular job which is billed by the other franchisee (see Item 12).

**Item 17**

**RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION**

**This table lists certain important provisions of the Franchise Agreement and related agreements. You should read these provisions in the exhibits attached to this disclosure document.**

**THE FRANCHISE RELATIONSHIP**

<u>Provision</u>	<u>Section in Franchise Agreement</u>	<u>Summary</u>
a. Term of the franchise	Section 3	10 years.
b. Renewal or extension of the term	Section 15	Renewal on new terms and conditions is permitted (including certain increases in the Monthly Franchise Fee) if you meet certain requirements.
c. Requirements for you to renew	Section 15	On the expiration of Agreement and provided you are not then in default under the terms of Agreement, we shall offer you the right to enter into a new franchise agreement with us for a term of ten (10) years and upon the terms and conditions as then offered to other franchisees whose franchise agreements are being renewed. We also reserve the right to make reasonable revisions of the terms of the Agreement upon renewal,

<u>Provision</u>	<u>Section in Franchise Agreement</u>	<u>Summary</u>
		as appropriate. The new franchise agreement will be mailed by us to your last known address by ordinary or such certified mail as we may determine, at least sixty (60) days prior to the expiration of Agreement, and you will have until the expiration date of Agreement to accept the new franchise agreement and return fully executed copies thereof to us.
d. Termination by you	Section 12	At any time with 60-day notice, subject to state law
e. Termination by us without cause	None	
f. Termination by us with cause	Section 13	We can terminate only if you commit any one of several violations.
g. "Cause" defined-defaults which cannot be cured	Section 13	Another default after 2 previous defaults in any 6-month period, whether or not cured.
h. "Cause" defined-defaults which can be cured	Section 13(a) through (i)	30 days cure for all other defaults.
i. Your obligations on termination/nonrenewal	Section 13	Cease operating Business, cease use of System and Marks, cancel assumed or similar name registrations, or de-identify, pay outstanding amounts.

<u>Provision</u>	<u>Section in Franchise Agreement</u>	<u>Summary</u>
j. Assignment of contract by us	Section 20	No restriction on our right to assign.
k. "Transfer" by you - definition	Section 14(a)	Includes transfer of any right or interest in the Agreement or you.
l. Our approval of transfer by you	Section 14(b) and 14(c)	We have the right to approve all transfers.
m. Conditions for our approval of transfer	Section 14(c)	You are not in default, transferee qualifies and provides required documents, assumes all your obligations, transfer fee paid, you execute and deliver release, transferee's owners sign guaranty.
n. Our right of first refusal to acquire your business	None	
o. Our option to purchase your business	Section 13	If we terminate you, we will purchase all unused items you purchased from us.
p. Your death or disability	Section 14(d)	Heirs may continue to operate provided they meet requirements described in m. above.
q. Non-competition covenants during the term of the franchise	Section 16	No involvement in any other business engaged in residential sewer, drain and pipe cleaning service businesses in the Territory or adjacent counties, subject to state law.

<u>Provision</u>	<u>Section in Franchise Agreement</u>	<u>Summary</u>
r. Non-competition covenants after the franchise is terminated or expires	None	Subject to state law.
s. Modification of the agreement	Section 20	No modifications without writing.
t. Integration/merger clause	Section 20	<p>Only terms of Franchise Agreement are binding (subject to state law).</p> <p>Any representations or promises outside of the disclosure document and franchise agreement may not be enforceable.</p>
u. Dispute resolution by arbitration or mediation	None	
v. Choice of forum	None	
w. Choice of law	None	

## **Item 18**

### **PUBLIC FIGURES**

We do not use any public figure to promote our franchise.

## **Item 19**

### **FINANCIAL PERFORMANCE REPRESENTATIONS**

The FTC's Franchise Rule permits a franchisor to provide information about the actual or potential financial performance of its franchised and/or franchisor-owned outlets, if there is a reasonable basis for the information, and if the information is included in the disclosure document. Financial performance information that differs from that included in Item 19 may be given only if: (1) a franchisor provides the actual records of an existing outlet you are considering buying; or (2) a franchisor supplements the information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

We do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Thad Reinhard, 300 Ashworth Road, West Des Moines, Iowa 50265 at (515) 223-1343, the Federal Trade Commission, and the appropriate state regulatory agencies.

## **Item 20**

### **OUTLETS AND FRANCHISEE INFORMATION**

As described in Item 1, we do not operate businesses of the type franchised pursuant to this Disclosure Document. Our affiliate, Roto-Rooter Services operates similar business and as used in this Item 20, Company-owned businesses refers to businesses of Roto-Rooter Services.

**SYSTEMWIDE OUTLET SUMMARY FOR YEARS 2019 TO 2021**

**Table No. 1**

<b>Outlet Type</b>	<b>Year</b>	<b>Outlets at the Start of the Year</b>	<b>Outlets at the End of the Year</b>	<b>Net Change</b>
Franchised	2019	370	353	-17
	2020	353	353	0
	2021	353	354	+1
Company-Owned	2019	111	120	+9
	2020	120	121	+1
	2021	121	121	0
Total Outlets	2019	481	473	-8
	2020	473	474	+1
	2021	474	475	+1

**TRANSFERS OF OUTLETS FROM FRANCHISEES TO NEW OWNERS  
(Other Than The Franchisor) FOR YEARS 2019 TO 2021**

**Table No. 2**

<b>State</b>	<b>Year</b>	<b>Number of Transfers</b>
Alabama	2019	0
	2020	0
	2021	1
Alaska	2019	0
	2020	0
	2021	0
Arizona	2019	0
	2020	0

<b>State</b>	<b>Year</b>	<b>Number of Transfers</b>
	2021	0
Arkansas	2019	0
	2020	0
	2021	0
California	2019	3
	2020	0
	2021	0
Colorado	2019	0
	2020	2
	2021	1
Connecticut	2019	0
	2020	0
	2021	0
Delaware	2019	0
	2020	0
	2021	0
Florida	2019	0
	2020	0
	2021	0
Georgia	2019	1
	2020	0
	2021	0
Hawaii	2019	0
	2020	0
	2021	0
Idaho	2019	0

<b>State</b>	<b>Year</b>	<b>Number of Transfers</b>
	2020	0
	2021	0
Illinois	2019	0
	2020	1
	2021	1
Indiana	2019	0
	2020	1
	2021	2
Iowa	2019	1
	2020	0
	2021	0
Kansas	2019	0
	2020	1
	2021	0
Kentucky	2019	0
	2020	0
	2021	0
Louisiana	2019	0
	2020	0
	2021	1
Maine	2019	0
	2020	0
	2021	0
Maryland	2019	0
	2020	0
	2021	0

<b>State</b>	<b>Year</b>	<b>Number of Transfers</b>
Massachusetts	2019	0
	2020	0
	2021	0
Michigan	2019	0
	2020	0
	2021	0
Minnesota	2019	0
	2020	0
	2021	0
Mississippi	2019	1
	2020	0
	2021	0
Missouri	2019	1
	2020	2
	2021	0
Montana	2019	1
	2020	0
	2021	0
Nebraska	2019	0
	2020	0
	2021	0
Nevada	2019	0
	2020	0
	2021	0
New Hampshire	2019	0
	2020	0

<b>State</b>	<b>Year</b>	<b>Number of Transfers</b>
	2021	0
New Jersey	2019	0
	2020	0
	2021	0
New Mexico	2019	0
	2020	0
	2021	0
New York	2019	0
	2020	0
	2021	1
North Carolina	2019	2
	2020	0
	2021	0
North Dakota	2019	0
	2020	0
	2021	0
Ohio	2019	1
	2020	0
	2021	0
Oklahoma	2019	1
	2020	0
	2021	0
Oregon	2019	0
	2020	0
	2021	0
Pennsylvania	2019	0

<b>State</b>	<b>Year</b>	<b>Number of Transfers</b>
	2020	0
	2021	2
Rhode Island	2019	0
	2020	0
	2021	0
South Carolina	2019	0
	2020	0
	2021	0
South Dakota	2019	0
	2020	0
	2021	0
Tennessee	2019	0
	2020	1
	2021	0
Texas	2019	1
	2020	1
	2021	0
Utah	2019	0
	2020	0
	2021	0
Vermont	2019	0
	2020	0
	2021	0
Virginia	2019	0
	2020	1
	2021	0

<b>State</b>	<b>Year</b>	<b>Number of Transfers</b>
Washington	2019	0
	2020	0
	2021	0
West Virginia	2019	0
	2020	0
	2021	0
Wisconsin	2019	0
	2020	0
	2021	2
Wyoming	2019	0
	2020	0
	2021	0
Totals	2019	13
	2020	10
	2021	11

**STATUS OF FRANCHISED OUTLETS FOR YEARS 2019 TO 2021**

**Table No. 3**

<b>State</b>	<b>Year</b>	<b>Outlets At Start of Year</b>	<b>Outlets Opened</b>	<b>Terminations</b>	<b>Non-Renewals</b>	<b>Reacquired by Franchisor</b>	<b>Ceased Operations- Other Reasons</b>	<b>Outlets at End of the Year</b>
Alabama	2019	16						16
	2020	16						16
	2021	16						16
Alaska	2019	3		2				1
	2020	1						1
	2021	1						1
Arizona	2019	7				3		4
	2020	4						4
	2021	4	1					5
Arkansas	2019	8						8
	2020	8						8
	2021	8						8
California	2019	41				4		37
	2020	37						37
	2021	37						37

State	Year	Outlets At Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations-Other Reasons	Outlets at End of the Year
Colorado	2019	10						10
	2020	10						10
	2021	10						10
Connecticut	2019	0						0
	2020	0						0
	2021	0						0
Delaware	2019	1						1
	2020	1						1
	2021	1						1
Florida	2019	8						8
	2020	8						8
	2021	8						8
Georgia	2019	10						10
	2020	10						10
	2021	10	1					11
Hawaii	2019	2						2
	2020	2						2

State	Year	Outlets At Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations-Other Reasons	Outlets at End of the Year
	2021	2						2
Idaho	2019	5						5
	2020	5						5
	2021	5						5
Illinois	2019	13						13
	2020	13						13
	2021	13						13
Indiana	2019	12						12
	2020	12				1		11
	2021	11						11
Iowa	2019	16						16
	2020	16						16
	2021	16						16
Kansas	2019	6		1				5
	2020	5						5
	2021	5						5
Kentucky	2019	1					1	

State	Year	Outlets At Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations-Other Reasons	Outlets at End of the Year
	2020	1	1					2
	2021	2						2
Louisiana	2019	7						7
	2020	7						7
	2021	7						7
Maine	2019	1						1
	2020	1						1
	2021	1						1
Maryland	2019	4						4
	2020	4						4
	2021	4						4
Massachusetts	2019	0						0
	2020	0						0
	2021	0						0
Michigan	2019	6						6
	2020	6						6
	2021	6						6

State	Year	Outlets At Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations-Other Reasons	Outlets at End of the Year
Minnesota	2019	4						4
	2020	4						4
	2021	4						4
Mississippi	2019	9						9
	2020	9						9
	2021	9						9
Missouri	2019	8						8
	2020	8						8
	2021	8						8
Montana	2019	8						8
	2020	8						8
	2021	8						8
Nebraska	2019	0						0
	2020	0						0
	2021	0						0
Nevada	2019	1						1
	2020	1						1

State	Year	Outlets At Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations-Other Reasons	Outlets at End of the Year
	2021	1						1
New Hampshire	2019	0						0
	2020	0						0
	2021	0						0
New Jersey	2019	10						10
	2020	10						10
	2021	10						10
New Mexico	2019	8						8
	2020	8						8
	2021	8						8
New York	2019	11						11
	2020	11						11
	2021	11						11
North Carolina	2019	8						8
	2020	8						8
	2021	8						8
North Dakota	2019	4					4	

State	Year	Outlets At Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations-Other Reasons	Outlets at End of the Year
	2020	4						4
	2021	4						4
Ohio	2019	16						16
	2020	16						16
	2021	16						16
Oklahoma	2019	7						7
	2020	7						7
	2021	7						7
Oregon	2019	12				2		10
	2020	10						10
	2021	10		1				9
Pennsylvania	2019	10						10
	2020	10						10
	2021	10						10
Rhode Island	2019	0						0
	2020	0						0
	2021	0						0

State	Year	Outlets At Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations-Other Reasons	Outlets at End of the Year
South Carolina	2019	5						5
	2020	5						5
	2021	5						5
South Dakota	2019	2						2
	2020	2		1				1
	2021	1						1
Tennessee	2019	10	1					11
	2020	11	1					12
	2021	12						12
Texas	2019	16				2		14
	2020	14						14
	2021	14						14
Utah	2019	6				4		2
	2020	2						2
	2021	2						2
Vermont	2019	3						3
	2020	3						3

State	Year	Outlets At Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations-Other Reasons	Outlets at End of the Year
	2021	3						3
Virginia	2019	6						6
	2020	6						6
	2021	6						6
Washington	2019	6						6
	2020	6						6
	2021	6						6
West Virginia	2019	4						4
	2020	4						4
	2021	4						4
Wisconsin	2019	15						15
	2020	15						15
	2021	15						15
Wyoming	2019	4						4
	2020	4						4
	2021	4						4
Totals	2019	370	1	3		15		353

State	Year	Outlets At Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations-Other Reasons	Outlets at End of the Year
	2020	353	2	1		1		353
	2021	353	2	1				354

**STATUS OF COMPANY-OWNED OUTLETS FOR YEARS 2019 TO 2021**

**Table No. 4**

State	Year	Outlets At Start of the Year	Outlets Opened	Outlets Reacquired From Franchisees	Outlets Closed	Outlets Sold to Franchisees	Outlets at End of the Year
Alabama	2019	2					2
	2020	2					2
	2021	2					2
Arizona	2019	0		3 <sup>1</sup>			2
	2020	2					2
	2021	2					2
Arkansas	2019	2					2
	2020	2					2

State	Year	Outlets At Start of the Year	Outlets Opened	Outlets Reacquired From Franchisees	Outlets Closed	Outlets Sold to Franchisees	Outlets at End of the Year
	2021	2					2
California	2019	3		4 <sup>2</sup>			10
	2020	10					10
	2021	10					10
Colorado	2019	3					3
	2020	3					3
	2021	3					3
Connecticut	2019	2					2
	2020	2					2
	2021	2					2
Delaware	2019	1					1
	2020	1					1
	2021	1					1
Florida	2019	10					10
	2020	10					10
	2021	10					10
Georgia	2019	2					2

State	Year	Outlets At Start of the Year	Outlets Opened	Outlets Reacquired From Franchisees	Outlets Closed	Outlets Sold to Franchisees	Outlets at End of the Year
	2020	2					2
	2021	2					2
Hawaii	2019	1					1
	2020	1					1
	2021	1					1
Idaho	2019	1					1
	2020	1					1
	2021	1					1
Illinois	2019	1					1
	2020	1					1
	2021	1					1
Indiana	2019	3					3
	2020	3		1			4
	2021	4					4
Kansas	2019	1					1
	2020	1					1
	2021	1					1

<b>State</b>	<b>Year</b>	<b>Outlets At Start of the Year</b>	<b>Outlets Opened</b>	<b>Outlets Reacquired From Franchisees</b>	<b>Outlets Closed</b>	<b>Outlets Sold to Franchisees</b>	<b>Outlets at End of the Year</b>
Kentucky	2019	2			1 <sup>3</sup>		1
	2020	1					1
	2021	1					1
Louisiana	2019	3					3
	2020	3					3
	2021	3					3
Maine	2019	0					0
	2020	0					0
	2021	0					0
Maryland	2019	2			1 <sup>4</sup>		1
	2020	1					1
	2021	1					1
Massachusetts	2019	2					2
	2020	2					2
	2021	2					2
Michigan	2019	4			1 <sup>5</sup>		3
	2020	3					3

<b>State</b>	<b>Year</b>	<b>Outlets At Start of the Year</b>	<b>Outlets Opened</b>	<b>Outlets Reacquired From Franchisees</b>	<b>Outlets Closed</b>	<b>Outlets Sold to Franchisees</b>	<b>Outlets at End of the Year</b>
	2021	3					3
Minnesota	2019	2					2
	2020	2					2
	2021	2					2
Mississippi	2019	2					2
	2020	2					2
	2021	2					2
Missouri	2019	4					4
	2020	4					4
	2021	4					4
Nebraska	2019	2					2
	2020	2					2
	2021	2					2
Nevada	2019	2					2
	2020	2					2
	2021	2					2
New Hampshire	2019	1				1	

<b>State</b>	<b>Year</b>	<b>Outlets At Start of the Year</b>	<b>Outlets Opened</b>	<b>Outlets Reacquired From Franchisees</b>	<b>Outlets Closed</b>	<b>Outlets Sold to Franchisees</b>	<b>Outlets at End of the Year</b>
	2020	1					1
	2021	1					1
New Jersey	2019	2					2
	2020	2					2
	2021	2					2
New Mexico	2019	1					1
	2020	1					1
	2021	1					1
New York	2019	7					7
	2020	7					7
	2021	7					7
North Carolina	2019	7					7
	2020	7					7
	2021	7					7
Ohio	2019	6					6
	2020	6					6
	2021	6					6

State	Year	Outlets At Start of the Year	Outlets Opened	Outlets Reacquired From Franchisees	Outlets Closed	Outlets Sold to Franchisees	Outlets at End of the Year
Oregon	2019	1		2 <sup>6</sup>			2
	2020	2					2
	2021	2					2
Pennsylvania	2019	6			1 <sup>7</sup>		5
	2020	5					5
	2021	5					5
Rhode Island	2019	1					1
	2020	1					1
	2021	1					1
South Carolina	2019	3					3
	2020	3					3
	2021	3					3
Tennessee	2019	3					3
	2020	3					3
	2021	3					3
Texas	2019	6		2			8
	2020	8					8

State	Year	Outlets At Start of the Year	Outlets Opened	Outlets Reacquired From Franchisees	Outlets Closed	Outlets Sold to Franchisees	Outlets at End of the Year
	2021	8					8
Utah	2019	0		4 <sup>8</sup>			1
	2020	1					1
	2021	1					1
Vermont	2019	1					1
	2020	1					1
	2021	1					1
Virginia	2019	4					4
	2020	4					4
	2021	4					4
Washington	2019	4					4
	2020	4					4
	2021	4					4
West Virginia	2019	1					1
	2020	1					1
	2021	1					1
Totals	2019	111		15 <sup>1,2,6,8</sup>	2 <sup>3,4,5</sup>		120

State	Year	Outlets At Start of the Year	Outlets Opened	Outlets Reacquired From Franchisees	Outlets Closed	Outlets Sold to Franchisees	Outlets at End of the Year
	2020	120		1			121
	2021	121					121

- 1/ Two outlets reacquired from franchisees in Arizona in 2019 were consolidated into one company-owned outlet.
- 2/ Two outlets reacquired from franchisees in California in 2019 were split into four company-owned outlets and one company-owned outlet was split into two company-owned outlets.
- 3/ Two company-owned outlets in Kentucky operated as one company-owned outlet.
- 4/ Two company-owned outlets in Maryland were consolidated into one company-owned outlet.
- 5/ Two company-owned outlets in Michigan were consolidated into one company-owned outlet.
- 6/ Two outlets reacquired from franchisees in Oregon in 2019 were consolidated into one company-owned outlet.
- 7/ Two company-owned outlets in Pennsylvania were consolidated into one company-owned outlet.
- 8/ Four outlets reacquired from franchisees in Utah in 2019 were consolidated into one company-owned outlet.

**PROJECTED NEW FRANCHISED OUTLETS  
AS OF DECEMBER 31, 2021**

**Table No. 5**

<b>State</b>	<b>Franchise Agreements Signed But Outlet Not Opened</b>	<b>Projected New Franchised Outlet in the Next Fiscal Year</b>	<b>Projected New Company-Owned Outlets in the Current Fiscal Year</b>
Total	0	0	0

A list of the names of all franchisees and the addresses and telephone numbers of their Businesses located in this state, or if fewer than 100, all contiguous states and the next closest states until 100 are listed, is attached as **Exhibit 4** to this Disclosure Document. A list of the name, city and state, and current business telephone number, or if unknown, the last home telephone number of every franchisee who has had a franchise terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement during fiscal year 2019 or who has not communicated with us within ten (10) weeks of the disclosure document issuance date is attached as **Exhibit 5**. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system. There have not been any confidentiality clauses signed by franchisees during the past three fiscal years.

“The following independent franchisee organization has asked to be included in this disclosure document.” Roto-Rooter Franchisee Association, 320 Market Street, Suite 600W, Harrisburg, PA 17101, Telephone: 717-364-1212, Website: [www.rrfa.org](http://www.rrfa.org), Email: [ottaway@rrfa.org](mailto:ottaway@rrfa.org)

## **Item 21**

### **FINANCIAL STATEMENTS**

Attached to this Disclosure Document as **Exhibit 6** are our audited financial statements of our parent, Chemed Corporation. They include balance sheets as of December 31, 2020 and December 31, 2021, and statements of income and cash flow for the periods ending December 31, 2019, December 31, 2020 and December 31, 2021. We do not provide you with our financial statements. Therefore, you do not have knowledge of how we have performed. However, Chemed Corporation unconditionally guarantees the performance of our obligations to our franchisees.

## **Item 22**

### **CONTRACTS**

The following agreement is attached as an exhibit to this disclosure document:

Franchise Agreement – Exhibit 2

# **EXHIBIT 1**

List of State Agencies/Agents  
For Service of Process

Listed here are the names, addresses and telephone numbers of the state agencies having responsibility for franchising disclosure/registration laws in those states in which Roto-Rooter Corporation is registered to sell franchises under the state's franchise law.

**CALIFORNIA**

Department of Corporations:

*Los Angeles*

Suite 750  
320 West 4<sup>th</sup> Street  
Los Angeles, California 90013  
(213) 576-7500  
Exemption filed

*Sacramento*

1515 K Street, Suite 200  
Sacramento, California 95814-4052  
(916) 445-7205

*San Diego*

1350 Front Street  
San Diego, California 92101  
(619) 525-4044

*San Francisco*

1390 Market Street, Suite 801  
San Francisco, California 94102  
(415) 557-3787

**HAWAII**

(state administrator)

Commissioner of Securities  
Department of Commerce and Consumer Affairs  
P.O. Box 40  
Honolulu, Hawaii 96810  
(808) 586-2722  
Effective Date: Pending

(agent for service of process)

Commissioner of Securities  
335 Merchant Street, Room 203  
Honolulu, Hawaii 96813  
(808) 586-2722

**ILLINOIS**

Franchise Bureau  
Office of the Attorney General  
500 South Second Street  
Springfield, Illinois 62706  
(217) 782-4465  
Exemption filed

**INDIANA**

(state administrator)

Indiana Secretary of State  
Securities Division, E-111  
302 West Washington Street  
Indianapolis, Indiana 46204  
(317) 232-6681  
Exemption filed

(agent for service of process)

Indiana Secretary of State  
201 State House  
200 West Washington Street  
Indianapolis, Indiana 46204  
(317) 232-6531

**MARYLAND**

(state administrator)

Office of the Attorney General  
Securities Division  
200 St. Paul Place  
Baltimore, Maryland 21202-2021  
(410) 576-6360  
Exemption filed

(for service of process)

Maryland Securities Commissioner  
at the Office of the Attorney General  
Securities Division  
200 St. Paul Place  
Baltimore, Maryland 21202-2021  
(410) 576-6360

**MICHIGAN**

(state administrator)

Consumer Protection Division  
Franchise Section  
Michigan Attorney General's Office  
525 West Ottawa Street  
G. Mennen Williams Building, 1<sup>st</sup> Floor  
Lansing, Michigan 48933  
(517) 335-7567  
Effective Date: Pending

(for service of process)

Michigan Department of Attorney General  
Consumer Protection Division  
Franchise Section  
P.O. Box 30213  
Lansing, Michigan 48909

## **MINNESOTA**

Minnesota Department of Commerce  
85 7th Place East, Suite 280  
St. Paul, Minnesota 55101  
(651) 296-4026  
Effective Date: Pending

## **NEW YORK**

(state administrator)

New York State Department of Law  
Bureau of Investor Protection  
and Securities  
120 Broadway  
New York, New York 10271  
(212) 416-8000  
Exemption filed

(for service of process)

Secretary of State of New York  
41 State Street  
Albany, New York 12231  
(518) 474-4750

## **NORTH DAKOTA**

North Dakota Securities Department  
600 East Boulevard Avenue  
State Capitol, 5<sup>th</sup> Floor  
Bismarck, North Dakota 58505-0510  
(701) 328-4712  
Exemption filed

## **OREGON**

Department of Insurance and Finance  
Corporate Securities Section  
Labor and Industries Building  
Salem, Oregon 97310  
(503) 378-4387  
Effective Date: Pending

## **RHODE ISLAND**

Department of Business Regulation  
Securities Division  
John O. Pastore Complex  
1511 Pontiac Avenue, Building 69-1  
Cranston, Rhode Island 02910  
(401) 462-9500  
Exemption filed

## **SOUTH DAKOTA**

Department of Labor and Regulation  
Division of Insurance  
Securities Regulation  
124 South Euclid, Suite 104  
Pierre, South Dakota 57501  
(605) 773-3563  
Effective Date: Pending

## **VIRGINIA**

(state administrator)

State Corporation Commission  
Division of Securities  
and Retail Franchising  
1300 East Main Street, 9<sup>th</sup> Floor  
Richmond, Virginia 23219  
(804) 371-9051  
Effective Date: Pending  
(for service of process)

Clerk, State Corporation Commission  
1300 East Main Street, 1<sup>st</sup> Floor  
Richmond, Virginia 23219  
(804) 371-9672

**WASHINGTON**

(state administrator)

Department of Financial Institutions  
Securities Division  
P.O. Box 9033  
Olympia, Washington 98507-9033  
(360) 902-8760  
Effective Date: Pending

(for service of process)

Director  
Department of Financial Institutions  
Securities Division  
150 Israel Road, SW  
Tumwater, Washington 98501

**WISCONSIN**

Department of Financial Institutions  
Division of Securities  
Securities and Franchise Registration  
201 West Washington Avenue, Suite 300  
Madison, Wisconsin 53703  
(608) 266-1064  
Effective Date: Pending

## **EXHIBIT 2**

Franchise Agreement

# Roto-Rooter Franchise Agreement

No. \_\_\_\_\_

FRANCHISE AGREEMENT made this 1st day of \_\_\_\_\_ effective \_\_\_\_\_

between ROTO-ROOTER CORPORATION ("Company") of West Des Moines, Iowa, and  
\_\_\_\_\_ ("Franchisee") of \_\_\_\_\_.

WITNESSETH:

WHEREAS, Company has developed methods and techniques known as the Roto-Rooter System for performing sewer, drain and pipe cleaning services and for selling such services to the public (the "Roto-Rooter System"); and

WHEREAS, Company presently owns and has registered as a trademark and service mark the Roto-Rooter emblem and the following marks: "Roto-Rooter", "Razor Kleens", "There's Only One" and "And Away Go Troubles Down the Drain" (the "Marks"); and

WHEREAS, Franchisee has represented to Company that Franchisee wishes to use the Roto-Rooter System and the Marks in selling to the public and in performing sewer, drain and pipe cleaning services only within the territory described herein and that Franchisee will perform and sell sewer, drain and pipe cleaning services within that territory to the satisfaction of Company and in accordance with the standards of performance and other terms and conditions set forth in this Agreement.

NOW THEREFORE, THE PARTIES HERETO AGREE AS FOLLOWS:

## 1. LICENSE AND FRANCHISE

On the terms and subject to the conditions of this Agreement, Company hereby grants to Franchisee, and Franchisee hereby accepts, a license and franchise to use the Marks in connection with the advertising, performance and sale of sewer, drain and pipe cleaning services ("Services") in accordance with the methods and techniques disclosed by Company to Franchisee (collectively, the "System") solely within the geographic market area described in Paragraph 2 of this Agreement (the "Territory"). The Company further grants to Franchisee, and Franchisee hereby accepts, a license and franchise to utilize confidential, proprietary materials ("Confidential Materials") in connection with the advertising and sale of Services under the Marks, and Franchisee agrees to use Confidential Materials only for such purposes and not to disclose Confidential Materials to any third party without the prior written consent of Company. These Confidential Materials shall include video tapes, manuals, reports and any other information supplied by Company to Franchisee, and identified as Confidential Materials, which relate to the System and are intended to assist Franchisee in the promotion and operation of its

CARLSBAD, NM

sewer, drain and pipe cleaning business. Franchisee may also, but shall not be required to, use the Marks in connection with septic tank cleaning services, plumbing repair services, pipe inspection services, and Water Restoration Services (hereinafter defined), and such other services, if any, which the Company shall hereafter expressly authorize in writing. To the extent such services are offered by Franchisee under authority of Company, all such services shall be included with the definition of Services as set forth above and referred to throughout this Agreement. Franchisee shall perform all Services in compliance with all applicable laws and industry standards. The term "Water Restoration Services" means: (i) extracting water from floor coverings and structures (such as drywall); (ii) removing floor coverings, structures and personal effects as appropriate; (iii) applying anti-microbial agents; (iv) drying floor coverings and structures using appropriate equipment; (v) cleaning the air; (vi) cleaning floor coverings and deodorizing; and (vii) other related professional water damage restoration services, such as remediation of mold, remediation of fire, smoke and soot, and reconstruction and redecorating. During the term of this Agreement, Company agrees that neither it nor its affiliate will grant an additional license or franchise for the purpose of conducting sewer, drain and pipe cleaning services using the Marks within the Territory, or perform Services identified by the Marks in the Territory. The license and franchise granted herein applies only to the use of the Marks in the solicitation and sale of the Services using the System within the Territory and does not apply to any other service marks or any trademark of Company or its affiliates or the use of any Marks in connection with the sale of any other product or service. Company reserves all rights not expressly licensed to Franchisee herein with respect to the Marks, the Services or any products or any other trademarks or services, anywhere in the world, including but not limited to the rights of Company and its affiliates to (i) provide or license Services or any other services under different trademarks and trade names; (ii) use the Marks to provide or license other services; and (iii) develop, manufacture, license, distribute, market or sell products in any channel of distribution under the Marks or different trademarks and trade names, whether or not the products are the same or similar to products sold by Franchisee.

## **2. FRANCHISE TERRITORY**

The license and franchise described in Paragraph 1 of this Agreement is granted to Franchisee on the condition that Franchisee will assume responsibility for selling to the public and performing the Services using the System identified by the Marks and only in the following described Territory:

(the "Territory":) and on the condition that Franchisee will sell and perform such Services in accordance with the terms and conditions set forth in this Agreement.

As express conditions for the grant of this franchise, during the term of this Agreement Franchisee shall:

(a) Actively and continuously advertise and promote within the Territory the System and the Marks. Company reserves the right to direct Franchisee to modify or discontinue advertisements that Company believes to present a risk of misleading prospective customers as to the authorized service area or authorized Services of Franchisee, and Franchisee shall promptly comply with any such directive.

(b) Actively and continuously sell and solicit sales only within the Territory of Services using the System in conjunction with and identified by the Marks. Franchisee shall not render Services in conjunction with or identified by the Marks at any location outside the Territory; provided that Franchisee may perform Services in the Territory of another franchisee only as a subcontractor to the other franchisee for a particular job that is billed by the other franchisee.

(c) Render Services that are to be performed pursuant to the System.

(d) Maintain office and service facilities for use by Franchisee in connection with the sale of Services. Franchisee shall notify Company of the address, telephone and facsimile transmission number, and email address of each such location established under this Agreement and any changes.

(e) Comply at all times with the service standards set forth in Paragraph 6 of this Agreement.

### 3. TERM

This Agreement shall become effective on \_\_\_\_\_ and shall expire on \_\_\_\_\_, unless terminated earlier under the provisions of Paragraphs 12 or 13 of this Agreement.

### 4. FRANCHISE AND LICENSEE FEES

(a) For the franchise granted by this Agreement and the right to use the System and the Marks, Company acknowledges receipt from Franchisee of an initial fee of **N.A.**

(b) Franchisee shall pay to Company at its offices in West Des Moines, Iowa, in advance on the first day of each month a monthly franchise fee (the "Monthly Franchise Fee").

Timely payment of the Monthly Franchise Fee is a material condition to this Agreement. During the first 12 months of the term of this Agreement the Monthly Franchise Fee shall be the product of the Territory's most recently determinable population ("MRDP") multiplied by the Franchise Fee per Population ("FFP"). During the first 12 months of the term of this Agreement the FFP will be **\$436.29** per month per 100,000 population or any portion thereof on the first 500,000 of population; **\$413.31** per month per 100,000 population or any portion thereof on the second 500,000 of population; and **\$390.37** per month per 100,000 population or any portion thereof on any remaining population over 1,000,000. The FFP in the first year of this Agreement is also referred to as the "Initial FFP". The FFP in each event will include the tiering calculation of the first 500,000 of population ("Tier 1"), the second 500,000 of population ("Tier 2") and all population in excess of 1,000,000 ("Tier 3"). The Monthly Franchise Fee shall be rounded up or down to the nearest \$5.00.

The Monthly Franchise Fee for the first twelve months of this Agreement will be **\$240** as calculated on Attachment A of this Agreement. The Company will provide the Franchisee with an updated annual Attachment A setting out the recalculated Monthly Franchise Fee.

Effective on each anniversary of this Agreement, Company will recalculate the Monthly Franchise Fee. This recalculation will adjust the FFP in proportion to the increase or decrease in the U.S. Consumer Price Index For All Urban Consumers (U.S. All City average; 1982-84 = 100) (the "Index") during the preceding calendar year (the "Adjusted FFP"). See Attachment B for examples of this process. If an Index figure is not available before an applicable adjustment date, Company will

use an estimate of the Index until the official Index figure becomes available. If the Index is discontinued or modified, the most nearly equivalent Index published by the U.S. government will be used to compute the Monthly Franchise Fee.

Company shall calculate each Adjusted FFP by multiplying the Initial FFP by a fraction, the numerator of which is the Index for December of the most recently completed calendar year and the denominator of which is the Index for the month of December of the calendar year next preceding the year in which this Agreement became effective. The Adjusted FFP will then be multiplied by the MRDP (which shall be subject to adjustment once every five (5) years as described below) to determine the recalculated Monthly Franchise Fee. The recalculated Monthly Franchise Fee shall be rounded up or down to the nearest \$5.00.

Each tier of the FFP for the first 12 months of the term of this Agreement and each tier of the Adjusted FFP for each year thereafter shall be adjusted as follows: the FFP or Adjusted FFP per 100,000 population or any portion thereof on the first 500,000 of population shall be increased by **10%** (the "Tier 1 Percentage Increase"); the FFP or Adjusted FFP per 100,000 population or any portion thereof on the second 500,000 of population shall be increased by **25%** (the "Tier 2 Percentage Increase"); and the FFP or Adjusted FFP per 100,000 population or any portion thereof on any remaining population over 1,000,000 shall be increased by **30%** (the "Tier 3 Percentage Increase"); *provided*, that if at any time during a calendar year, less than one-half of then-existing Company-owned and operated Roto-Rooter Services Company units are providing Water Restoration Services, for the following calendar year, the Tier 1 Percentage Increase shall be reduced to **5%**, the Tier 2 Percentage Increase shall be reduced to **10%**, and the Tier 3 Percentage Increase shall be reduced to **15%**; *provided further*, that if at all times during a calendar year one-half or more of then-existing Company-owned and operated Roto-Rooter Services Company units are providing Water Restoration Services, for the following calendar year and thereafter (subject to subsequent reductions on the terms of the immediately preceding proviso), the Tier 1 Percentage Increase shall revert to **10%**, the Tier 2 Percentage Increase shall revert to **25%**, and the Tier 3 Percentage Increase shall revert to **30%**. For such purposes, each Roto-Rooter Services Company branch will be considered a Company-owned unit even if there are multiple office and warehouse locations operated by that branch. A list of current Company-owned units as of July 31, 2016 is attached to this Franchise Agreement as Exhibit C.

The principal source used for population data is the United States Census Bureau for all territory located within the United States. For territory located outside of the United States, an equivalent source will be used for the country where the population is located.

Consistent with the understanding that the MRDP shall be updated once every five years, Company will update the MRDP effective as of the first day in the first month of the sixth year of this Agreement to the most recently determinable population of the Franchisee's Territory and shall use the updated MRDP to recalculate the Monthly Franchise Fee under the procedures described above for the sixth through tenth year of this Agreement.

## **5. ASSISTANCE TO FRANCHISEES**

During the term of this Agreement:

(a) Company shall provide to Franchisee those management, engineering and research services, and advice concerning the System, the use and display of the Marks, and franchisee's operation of the business operated hereunder which Company makes available to its franchisees

generally from time to time and provide advice and instructions to Franchisee with respect to proper use of the System and the Marks. The parties shall consult with each other on the possible need for Company to provide training and certifications to Franchisee relating to Water Restoration Services, and if requested by Franchisee, Company shall provide such training and certifications on such terms and conditions as the parties mutually agree, *provided*, that Franchisee acknowledges that Company may require Franchisee to pay additional fees for such training and certifications.

(b) Company shall offer to franchisee a 5% discount for any Roto-Rooter branded products purchased by franchisee from Roto-Rooter Corporation, net of any other discounts, taxes, shipping cost and returns. In order to qualify for the discount, Roto-Rooter Corporation must receive payment in full for such purchase within 30 days of the invoice date. The discount will be given in the form of a reduction on the purchase invoice and will be considered a rebate of franchise fees.

(c) Company shall spend each year a total amount of not less than 15% of the monthly franchise fees it receives from all franchisees, said franchise fees to be reduced by the 5% discount noted in 5(b) above, during the preceding year for market research, for advertising and promotion of the Marks and the Services on a national scale, and for the development and production of advertising and promotional material to be available to all franchisees in promoting sales of Services under the Marks.

## **6. SERVICE STANDARDS**

Franchisee acknowledges that nationwide uniform standards of service are vital to the protection of the System and the Marks and necessary to assure that the public receives the kind and quality of service it associates with the System and the Marks. Franchisee therefore agrees that it will fully comply with each of the following requirements in all of its operations as a Franchisee under this Agreement:

(a) Provide prompt and courteous service at all times during normal working hours and, additionally, provide an emergency service that will adequately meet the public need for such service within the Territory. Company may establish and Franchisee shall honor performance standards for operation of the franchised business, and rendering the Services to customers. Company will consult its franchisees before promulgating performance standards.

(b) Maintain reasonable standards of cleanliness. Keep all machines in good working order and clean. Keep all service personnel in uniform and easily identifiable as bona fide Roto-Rooter service personnel in accordance with the then-existing Mark identification policies of the Company. All service vehicles shall be painted white or such other color as specified by Company and all such vehicles must be kept neat and clean and identified as Roto-Rooter service vehicles in accordance with the then-existing Mark identification policies of Company.

(c) On every job, take all necessary precautions to protect furnishings, interior and exterior walls, lawns, gardens, etc., and cleaning working area thoroughly upon completion of the job.

(d) Whenever possible, offer and honor a guarantee for the Services performed.

(e) Conduct business in a manner which will reflect favorably at all times on Company, its franchisees and its Marks and engage in no act or practice with the intent or effect of disparaging or impairing the goodwill of any of the Marks.

(f) Refrain from any misleading or unethical practice in performing, soliciting or advertising Services rendered under this Agreement.

(g) Provide, upon request of Company in order to allow Company to monitor the quality of services provided and the maintenance of service standards, a listing of the names, addresses and telephone numbers of customers served during a recent time period (not to exceed 30 days) specified by the Company.

(h) Permit Company to enter Franchisee's premises and vehicles to inspect them to assure compliance with the terms of this Agreement. Franchisee shall cooperate and assist in any such inspection, and shall meet with Company's representatives at Franchisee's principal place of business in the Territory to review the results of inspections or other matters Company wishes to discuss with Franchisee.

## 7. LOCAL ADVERTISING

(a) As used in this Paragraph 7, the following terms shall have the meanings specified below:

"Agreement Year" is the 12-month period commencing on the effective date of this Agreement and each successive 12-month period thereafter commencing on the anniversary of this Agreement.

"Minimum Local Advertising Per MRDP" shall mean:

(1)	(2)
<u>Agreement Year</u>	<u>Minimum Local Advertising Per MRDP</u>
1 - 2022	\$0.1007
2 - 2023	\$0.1032
3 - 2024	\$0.1058
4 - 2025	\$0.1084
5 - 2026	\$0.1111
6 - 2027	\$0.1138
7 - 2028	\$0.1165
8 - 2029	\$0.1192
9 - 2030	\$0.1222
10 - 2031	\$0.1252

In Column (1), the calendar year number associated with an Agreement Year is determined by when the Agreement Year starts, not when it ends.

(b) Franchisee acknowledges that regular and continuous advertising of the System and the Marks is vital to the success of a Roto-Rooter franchise.

(c) Local advertising - During each Agreement Year, Franchisee shall expend for local advertising conducted during such Agreement Year not less than (i) the Minimum Local Advertising Per MRDP for that Agreement Year, times (ii) the MRDP then in effect. Local advertising for the System and the Marks may include telephone directories, internet marketing, direct mail, media broadcasting, and trade show marketing materials. Internet marketing includes paid online local advertising, including local yellow pages advertising and local pay per click. Media broadcasting includes local television, radio, outdoor billboards and direct mail that conveys the Roto-Rooter trademark within the Territory. Costs of Web site development, Web site optimization, and production for media broadcasting shall not be credited towards the minimum annual spending requirement.

Franchisee shall not place advertisements offering to provide Services to customers outside the Territory. If Franchisee places advertisements or listings in telephone directories covering and distributed in the Territory, where such telephone directories are usually and customarily distributed both within and without the Territory, all of Franchisee's advertisements therein shall specify Franchisee's Territory in not less than eight-point type size.

If Franchisee has more than one Roto-Rooter sewer and drain cleaning franchise, it may combine the minimum local advertising requirements for its territories and allocate the expenditures among its territories without regard to the minimum for any single territory. If Franchisee chooses to combine the minimums, the total amount so expended must equal or exceed the sum of the minimums for the combined territories.

If Franchisee desires to combine a territory for which no minimum has been established, Company will establish a minimum for such territory using the same method used under this Agreement to establish the minimum for the Territory.

If Franchisee does not expend the required minimum amounts in the manner and amounts set forth in this Paragraph 7(c), Franchisee shall within 14 days after the end of the applicable Agreement Year without demand therefore remit to Company an amount equal to the difference between the amount required to be expended and the amount actually expended. Company shall expend the total amount so remitted in the manner and for the advertising, research, promotional, development or production purposes described in Paragraph 5(c) of this Agreement.

Franchisee shall provide Company, at the times and in the manner prescribed by Company, documentation satisfactory to Company that Franchisee has engaged in the advertising and made the advertising expenditures required by this Paragraph 7(c).

Company reserves the right to approve in advance all advertising (including programs, media, materials and content) of the System and Marks and to establish rules, standards and procedures regarding the content, form and manner of advertising the System and Marks. Nothing in this Agreement entitles Company to interfere with Franchisee's independent pricing discretion.

(d) Franchisee's aggregate minimum local advertising requirement for the first Agreement Year is shown on Attachment A of this Agreement. On an annual basis, Company shall provide Franchisee with an updated Attachment A.

## **8. USE OF TRADEMARKS AND SERVICE MARKS**

Franchisee shall use the Marks only in the manner or manners and places prescribed or authorized by Company and only in connection with the sale and performance of Services expressly authorized by Company in writing. Franchisee shall promote and identify the Services in the Territory and only in the Territory and shall not use the Marks in connection with the sale or lease of unauthorized products or services.

Upon receipt of notice from Company that the Marks are being used in an unauthorized manner, Franchisee shall immediately cease such unauthorized use. Franchisee shall not alter or add to the form or content of said Marks in any manner nor use the mark "Roto-Rooter" or any colorable imitation thereof in any corporate or trade name. Upon receipt of prior written consent of Company and fulfillment by Franchisee of other conditions as specified by Company, Franchisee may include "Roto-Rooter" as part of a fictitious name filing required by state law. Franchisee shall not file for or acquire any registration (state or federal) for the Marks or any trademark or service mark (or variation thereof) confusingly similar to the Marks. Company reserves the right to alter or replace the principal identifying characteristics of the franchised business, including the trade dress and principal trademark and service mark identification of the Services and of the business franchised hereunder, but will not withdraw the license to use the "Roto-Rooter" trademark pursuant to this provision. Company will consult its franchisees before implementing substantial changes in the trade dress of the System. Franchisee shall implement such changes upon notice from Company. Franchisee shall prominently identify itself in its offices and on its forms and advertisements as an independent business operated under license from Company in such form and content as Company may direct.

Franchisee shall advise Company, from time to time, of all uses by others of names, symbols and devices comprising, consisting of, or similar to the name "Roto-Rooter" or any of the Marks, including any variations or colorable imitations thereof. Company shall solely determine whether such uses are unauthorized uses and whether action should be commenced to curtail such uses. All lawsuits and actions for trademark infringement or dilution and/or unfair competition shall be brought only by Company; however, if requested by Company, Franchisee shall consent to be joined as a party in any lawsuit or action and lend his full cooperation and assistance in the preparation and prosecution of such lawsuit or action. Company shall reimburse Franchisee for all reasonable out-of-pocket expenses incurred by Franchisee at the request of the Company in regard to the foregoing. Franchisee shall not institute any legal action alleging infringement of Company's Marks. Franchisee is specifically prohibited from charging other entities with infringement and from initiating suit for infringement or dilution of Company's Marks.

## **9. ROTO-ROOTER MACHINES**

Company agrees to make available to Franchisee for purchase during the term of this Agreement the current Roto-Rooter brand equipment and parts line (the "Machines") as needed by Franchisee, at prices and upon terms of sale then prevailing, for cash or upon such terms of credit, as Company shall determine. Franchisee agrees that the Machines and the Marks associated with the System will be used only in conjunction with the Services performed under the terms of this Agreement.

## 10. FINANCIAL STANDARDS

Franchisee agrees, during and after the term of this Agreement, to indemnify and hold Company, its parent corporation and their respective officers, agents and employees harmless from and against all loss or damage, liability, cost and expense arising in contract, tort or otherwise out of, in connection with, in relation to, or as a result of a violation of this Agreement by Franchisee and from all claims and damages, causes of action or suits asserted by any third person, firm, corporation or government entity caused by, resulting from or in any way arising or growing out of or in connection with the operation of Franchisee's business which is the subject of this Agreement or otherwise (including the use by Franchisee of the System, the Marks, the Machines, or the operation of any other business conducted by Franchisee).

## 11. INSURANCE

It is understood and agreed that the protection of the goodwill of the System and the Marks and the financial security of Franchisee and Company requires the existence of public liability insurance coverage for Franchisee. Franchisee therefore shall procure and maintain in full force and effect Commercial General Liability insurance coverage (including premises/operations coverage, products/completed operations coverage and contractual liability coverage) and comprehensive Motor Vehicle Liability insurance coverage (including hired and non-owned motor vehicle coverage) in the name of Franchisee, with Company named as an Additional Insured, at Franchisee's sole cost and expense in no less than the following amounts:

Bodily Injury	\$1,000,000 each person \$1,000,000 each occurrence
Property Damage	\$500,000 each occurrence or
A single limit policy in the amount of no less than	\$1,000,000 each occurrence

If Franchisee performs Water Restoration Services, Franchisee shall procure and maintain in full force and effect Contractor's Pollution Liability (CPL) insurance coverage for such services, in the name of Franchisee, with Company named as an Additional Insured, at Franchisee's sole cost and expense in no less than the amounts specified above. If practicable, the policy shall be written on an occurrence basis, but if written on a claims-made basis, the retroactive date shall be no later than the commencement of work. The policy shall (a) cover mold and fungus, (b) in the case of occurrence coverage, shall cover completed operations for at least three (3) years after the work is completed, and in the case of claims made coverage, shall continue for at least three (3) years after expiration or termination of the Franchise Agreement, (c) provide coverage for both work performed on site and the transport of hazardous materials, (d) contain a waiver of subrogation in favor of Company, (e) be primary to any other coverage available, and (f) be issued by a carrier with no less than an A- VIII rating by A.M. Best.

Franchisee shall furnish Company at any time upon Company's request certificates evidencing such insurance containing an endorsement that the policy may not be canceled without thirty (30) days' advance written notice to Company.

## **12. TERMINATION BY FRANCHISEE**

This Agreement may be terminated by Franchisee at any time during the term of this Agreement by delivery of written notice of termination (which shall be irrevocable) to Company sixty (60) days before the effective date of such termination. If Franchisee abandons the franchise granted herein by failing to conduct the business franchised hereunder for any continuous period of 10 or more days (except as caused by strike, casualty or Acts of God), this Agreement shall expire automatically by mutual consent on the tenth day after Franchisee ceased or suspended operation. Immediately upon such termination or expiration, Franchisee shall comply with the post-termination or expiration provisions of Paragraph 13 of this Agreement.

## **13. TERMINATION BY COMPANY**

To the extent permitted by law, this Agreement may be terminated by Company for cause upon sixty (60) days' notice (or such longer period of notice as shall be required by applicable law) to Franchisee as hereinafter provided. Although not limited to such, any of the following acts of default by Franchisee to the extent permitted by applicable law shall be cause for termination of this Agreement by Company:

(a) If any moneys payable by Franchisee to Company pursuant to this Agreement or otherwise are not paid in full as and when due, including without limitation the Monthly Franchise Fee payable under Paragraph 4 and amounts payable under Paragraph 7(c). In addition, and to the extent permitted by law, Company shall have the right and option to charge and Franchisee shall pay a delinquency fee on any sums not paid when due at the rate of 1.5% per month on the unpaid balance due until paid in full.

(b) If there shall be filed by or against Franchisee, in any court, a petition in bankruptcy, or for reorganization or relief under any provision of the Federal Bankruptcy Act, or if a receiver or trustee of the business of the Franchisee is appointed, or if an attachment or writ is issued against the Franchisee which affects the business of the Franchisee, and such receivership, trusteeship, attachment or writ shall not be dissolved or discharged within thirty (30) days from the date of filing thereof, or if Franchisee shall be adjudicated bankrupt or insolvent or shall make an assignment for the benefit of creditors.

(c) If Franchisee or its principal shareholder is convicted of any felony.

(d) If there is a lapse of insurance, or nonpayment of insurance premiums therefore, as required in Paragraph 11 hereof.

(e) If Franchisee fails to use its best efforts in developing and promoting the sales of Services in the Territory.

(f) If Franchisee makes or attempts to make a transfer, in violation of Paragraph 14, of an interest in this Agreement or of an ownership interest in Franchisee.

(g) If Franchisee should use or advertise any of the Marks except in accordance with Company's prescribed methods of use or advertisement thereof.

(h) In the event Franchisee performs Services outside the Territory; except that Franchisee may perform Services in the Territory of another franchisee only as a subcontractor to the other franchisee for a particular job that is billed by the other franchisee.

(i) If Franchisee defaults in the performance of any other provision of this Agreement whether or not listed in this Paragraph 13.

Company shall notify Franchisee in writing of the acts or conduct constituting cause for termination of this Agreement. Franchisee shall have thirty (30) days after receipt of such notice to cure to the reasonable satisfaction of Company any such default, which, upon cure, shall have the effect of voiding such notice of termination. In the event Franchisee is in default hereunder and Company has previously delivered a notice of default to Franchisee two (2) times in any consecutive six (6) month period, whether cured or not, Company, in addition to any other rights or remedies it may have, shall have the right and option to terminate this Agreement forthwith without further notice to Franchisee. Notice of termination may be delivered together with or at any time after a notice of default, subject to an applicable right (if any) to cure the noted default(s). Notices under this Paragraph are effective when sent in accordance with Paragraph 18.

Upon termination of this Agreement by Company pursuant to this Paragraph 13, Company shall repurchase from Franchisee at a fair market value at the time of termination any unused cable, parts, equipment and supplies (other than expendable supplies such as stationery, invoices and business cards) which Franchisee purchased from Company; provided, that Company may offset against payment of such repurchase price any and all amounts owed by Franchisee to Company. Immediately upon termination or expiration of this Agreement, either under the provisions of this Paragraph or those of Paragraph 12, Franchisee shall cease using the System and shall cease using or displaying the Marks and shall discontinue any representation or suggestion, either directly or indirectly, that it is or was formerly a franchisee or authorized user of the System or the Marks. Franchisee shall also immediately cancel any fictitious name filing using any of the Company's service marks or trademarks, including the "Roto-Rooter" mark or any name or mark confusingly similar thereto. Upon termination or expiration of this Agreement, Franchisee shall promptly remove the Marks from the Machines and all other items of property in the possession of Franchisee. If Franchisee disposes of a Machine, vehicle or other equipment to anyone other than another Roto-Rooter franchisee, Franchisee shall remove all Marks from the Machine before such disposition; if a Machine, vehicle or other equipment is transferred to an employee for continued use in the franchised business, Franchisee shall condition such transfer on the employee's obligation to remove the Marks before making any further disposition thereof (except to Franchisee or another Roto-Rooter franchisee).

#### **14. ASSIGNMENT OF RIGHTS BY FRANCHISEE**

(a) Franchisee shall not sell, assign, transfer, delegate, pledge, grant a security interest in, or encumber this Agreement or any right or interest herein or hereunder, or transfer or allow the direct or indirect transfer of any ownership interest in Franchisee, or suffer or permit any such sale, assignment, transfer or encumbrance to occur by operation of law, without the prior written consent of Company. Franchisee shall not grant a lien or security interest in this Agreement or any interest herein without Company's prior written consent, which shall not be unreasonably withheld but may be conditioned upon Franchisee's guarantee of the transferee's performance of this Agreement. Any sale, transfer, assignment or encumbrance of this Agreement or of any rights herein or hereunder, or in Franchisee except in accordance with the terms and conditions as hereinafter provided, constitutes a breach of this Agreement and shall permit Company to terminate this Agreement forthwith.

(b) On condition that Franchisee is not in default hereunder, Company shall not unreasonably withhold or delay its written consent to a proposed transfer governed by Paragraph 14(a).

(c) As an express condition to obtaining the written consent of Company, Franchisee must furnish to Company:

(i) True and complete copies of the proposed sale, assignment, transfer, delegation or other agreement, in the final and complete form in which it is to be signed by both parties thereto, pursuant to which such sale, assignment, transfer or encumbrance is proposed to be made.

(ii) Information concerning the proposed purchaser, assignee or transferee which establishes to the satisfaction of Company that such party is qualified and has the resources necessary to be a successful franchisee of Company and has no legal or business interest that conflicts or potentially conflicts with the interests of Company or the Roto-Rooter System. Company will not disapprove a transfer to a plumber merely because the proposed transferee is a plumber.

(iii) An agreement by the proposed purchaser, assignee or transferee, in form and substance satisfactory to Company, under the terms of which the proposed purchaser, assignee or transferee assumes all obligations of Franchisee pursuant to Franchisee's outstanding service guarantees and agrees to honor and fulfill all such guarantees for all customers involved.

(iv) A Release Agreement, on a form furnished by Company and signed by Franchisee, under which Franchisee releases all claims which Franchisee may then or in the future have against Company or its agents, employees or licensees which arise out of or which result from this Agreement.

(v) An administrative fee in an amount equal to 1-1/2% of the total sale price, but in no event less than \$1,000 or more than \$7,500. For purposes of this paragraph, "total sale price" means the present value (discounted at 10% per annum) of all consideration exchanged including but not limited to debt assumed, covenants not to compete, consulting agreements or the equivalent for all of the assets transferred except interests in real estate.

(vi) A counterpart to the Guaranty at the foot of this Agreement signed by each principal shareholder of the new franchisee if it is a corporation.

(d) Upon the death of Franchisee, or of a majority stockholder of Franchisee if Franchisee, is a corporation, all rights under this Agreement will inure to the benefit of the person or persons who are entitled to receive a distribution of all or a portion of Franchisee's (or such majority stockholder's) rights under this Agreement pursuant to Franchisee's (or such majority stockholder's) Last Will and Testament or, if Franchisee dies intestate, pursuant to the laws of descent and distribution of the State having primary jurisdiction over Franchisee's (or such majority stockholder's) estate, such person or persons being hereinafter referred to as "heirs". The heirs may then continue to operate the business contemplated in this Agreement provided they meet the requirements of subparagraphs (b) and (c) above, or, in the alternative, the heirs may sell, assign and transfer all of their rights pursuant to this Agreement provided they comply with above provisions relating to a sale, transfer or assignment of this Agreement by Franchisee. The heirs must use their best efforts to conclude the probate or transfer this Agreement.

## 15. RIGHT TO RENEW FRANCHISE

(a) On the expiration of this Agreement and provided Franchisee is not then in default under the terms of this Agreement, Company shall offer Franchisee the right to enter into a new franchise agreement with Company for a term of ten (10) years and upon the terms and conditions as then offered to other franchisees whose franchise agreements are being renewed. Upon renewal, the Company will recalculate the Monthly Franchise Fee for the initial year of the renewal term. The recalculated Monthly Franchise Fee shall be the product of the then current MRDP calculated as of the renewal date in the manner described in Paragraph 4, multiplied by a reset FFP ("Reset FFP"). The Company also reserves the right to make reasonable revisions of the terms of the Agreement upon renewal, as appropriate.

The Reset FFP for the initial year of the renewal term shall be calculated using: (A) pricing inflation or deflation; and (B) increases or decreases in market penetration in certain defined services provided by Company-owned and operated Roto-Rooter Services Company units in existence as of January 1, 2016 which are also in existence on December 31, 2026 ("RRSC Equivalent Units"). Defined services shall include (i) residential plumbing, sewer, drain and pipe cleaning, excavation, pipe replacement, and pipe relining, and Water Restoration Services (including water restoration referrals); and (ii) commercial plumbing, sewer, drain and pipe cleaning, and Water Restoration Services (including water restoration referrals) ("Defined Services").

The change in pricing and market penetration in the Defined Services experienced by RRSC Equivalent Units shall be determined as follows:

(i) The Company shall calculate the percentage change of total Defined Services revenue for RRSC Equivalent Units for the twelve-month period ended December 31, 2026 compared to total Defined Services revenue for RRSC Equivalent Units for the twelve-month period ending December 31, 2016. This percentage change will then be adjusted down for any percentage increase, or adjusted upward for any percentage decrease, in total population within the RRSC Equivalent Units Territories over the most recently determinable ten-year period preceding the renewal date ("RRSC Ten Year Services Inflation"). If the RRSC Ten Year Services Inflation is not available, Company will use an estimate of the RRSC Ten Year Services Inflation until the official figure becomes available.

(ii) The Reset FFP shall be the Initial FFP adjusted by the RRSC Ten Year Services Inflation (meaning the Initial FFP plus an amount calculated by multiplying the Initial FFP by the Ten Year Services Inflation), except that only for purposes of calculating the Reset FFP used at the time of the first renewal occurring on or after January 1, 2027, the Reset FFP shall be equal to the Adjusted FFP, as most recently calculated for the year preceding the renewal ("MRCAFFP"), plus (A) an amount calculated by multiplying the MRCAFFP by the percentage change in the Index as calculated for the year immediately preceding the renewal; plus (B) an amount calculated by multiplying the MRCAFFP by five percent (5.0%). See Attachment C for examples of the computation of the Reset FFP.

(b) As soon as practicable, but no later than sixty (60) days before the expiration of this Agreement, Company will mail the new franchise agreement to the last known address of Franchisee by ordinary or such certified mail as Company may determine, and Franchisee will have until the expiration date of this Agreement to accept the new franchise agreement and return fully executed copies thereof to Company.

**16. OWNERSHIP, MANAGEMENT AND COVENANT NOT TO COMPETE**

Company has entered into this Agreement in reliance upon the representation of Franchisee that during the term of this Agreement the following persons will be the owners and in active and full-time charge of the business of Franchisee conducted pursuant to the terms of this Agreement:

Name and Address	Ownership Percentage	Title
	Click or tap here to enter text.	No Title Listed

Franchisee expressly acknowledges and agrees that Company has developed and established extensive goodwill in the System and the Marks and that in order to protect such goodwill, together with the other legitimate business interests of Company, Franchisee, including, if appropriate, each of its owners as listed above, agrees that during the term of this Agreement he will not, directly or indirectly, whether as an owner, sole proprietor, partner, stockholder, consultant, employee, agent or otherwise, engage in, assist, or have any financial interest in any other business entity which is engaged in the residential sewer, drain and pipe cleaning services business within the Territory and, to the extent permitted by law, within the counties (or parishes) in or adjacent to such Territory.

**17. COMPLIANCE WITH LAWS**

Franchisee shall be solely responsible for the conduct of its business and for compliance with all laws, statutes, ordinances, orders or codes of any public or governmental authority pertaining to Franchisee and its business operated pursuant hereto and for the payment of all taxes, permits, licenses and registration fees and other charges or assessments arising out of the establishment and operation of Franchisee's business.

**18. NOTICE**

Any notice given pursuant to this Agreement is effective and sufficient (whether or not actually received) if in writing and personally delivered, or deposited in the United States mail, registered or certified, postage prepaid, or if by wire or cable, when placed with a telegraph or cable company for transmission, or by facsimile or overnight express carriers, duly addressed as follows:

If to Company:

Roto-Rooter Corporation  
300 Ashworth Road  
West Des Moines, IA 50265  
Attention: President

and a copy to

Chemed Corporation  
Suite 2600, 255 East 5th Street  
Cincinnati, OH 45202-4726  
Attention: Secretary

If to Franchisee:

At the address as set forth on Page One.

Any party may change the address to which notices are to be sent by notifying the other party hereto in the manner as hereinabove provided.

## **19. SEVERABILITY**

If any part or provision of this Agreement is held or declared invalid by a court of competent jurisdiction, such holding or declaration shall affect only that particular part or provision of this Agreement and all other parts or provisions of this Agreement shall continue in full force and effect.

## **20. GENERAL PROVISIONS**

Headings in this Agreement are inserted solely for the purpose of convenience of reference and are not to be construed as part of the Agreement.

This Agreement, when accepted in West Des Moines, Iowa, by an authorized officer of Company, constitutes the entire Agreement and understanding between the parties and no other representation, promise or agreement, oral or otherwise, shall be of any force or effect. This Agreement sets forth the entire agreement and understanding of the parties in respect of the transactions contemplated hereby and supersedes all prior agreements, arrangements and understandings related to the subject matter hereof. No representation, promise, inducement or statement of intention has been made by Company or Franchisee that is not embodied in this Agreement. Neither Company nor Franchisee has relied upon, or shall be bound by or liable for, any alleged representation, promise, inducement or statement of intention not so set forth. Nothing in this or in any related agreement, however, is intended to disclaim the representations we made in the franchise disclosure document that we furnished to you.

You acknowledge that you are entering into this Agreement as a result of your own independent investigation of our franchised business and not as a result of any representations about us made by our shareholders, officers, directors, employees, agents, representatives, independent contractors, or franchisees that are contrary to the terms set forth in this Agreement, or in any disclosure document, prospectus, or other similar document required or permitted to be given to you pursuant to applicable law.

Company may assign this Agreement in its entirety to its parent corporation, any corporation affiliated with either Company or its parent corporation or to any successor in interest to the business of Company. All terms, covenants, representations, warranties and conditions of this Agreement shall be binding upon, inure to the benefit of and be enforceable by, the parties hereto and their respective successors and permitted assigns.

The parties stand hereunder solely in the relationship of the licensor and licensee. The parties are not and shall not be regarded as fiduciaries and this Agreement does not create any relationship of special trust and confidence. Franchisee is not and shall not hold itself out as the agent, employee or partner of the Company.

Subject to Paragraphs 12 and 13 above, this Agreement may be amended, modified, superseded or canceled and any of the terms, covenants, representations, warranties or conditions hereof may be waived only by a written instrument executed by both Company and Franchisee. The failure of either party at any time or times to require performance of any provisions hereof shall in no manner affect its right at a later time to enforce the same. No waiver by either party of any condition or breach of any term, covenant, representation or warranty contained in this Agreement, whether by conduct or otherwise, in any one or more instances shall be deemed to be or construed as a further or continuing waiver of any such condition or breach or a waiver of any other condition or breach of any other term, covenant, representation or warranty of this Agreement.

IN WITNESS WHEREOF, the parties have executed or caused this Agreement to be duly executed, all as of the day and year first above written.

ROTO-ROOTER CORPORATION

By \_\_\_\_\_  
(Signature and Title) -- Authorized Officer

If Franchisee is an Individual:

Franchisee:

\_\_\_\_\_  
Name

If Franchisee is a Partnership:

Franchisee:

\_\_\_\_\_  
Partner, jointly and severally

\_\_\_\_\_  
Partner, jointly and severally

If Franchisee is a Corporation:

Franchisee:

\_\_\_\_\_  
Name of Corporation

By \_\_\_\_\_  
Authorized Officer

\_\_\_\_\_  
Title

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Guaranty

To Be Executed By Principal Stockholder(s) If Franchisee Is a Corporation.

The undersigned, principal stockholder(s) of the above Franchisee, for value received, hereby absolutely and unconditionally guarantee(s) full performance and payment when due of all of Franchisee's obligations to Company pursuant to the above Agreement.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Attachment A - Monthly Franchise Fee  
For Agreement Year 1 - 2022**

**Contract Number:**

**Territory Name:**

Row	Column	(1)	(2)	(3)	(4)	(5)
(1)	MRDP as of effective date of this agreement (1/1/2022)					1,755,065

Population Tier	Initial FFP per 100,000 Population	Percentage Increase in the FFP pursuant to Section 4(b) of the Franchise Agreement	Resulting FFP per 100,000 Population pursuant to Section 4(b) of the Franchise Agreement Col. 1 x Col. 2	MRDP per Above	Monthly Franchise Fee Col. 3 x Col. 4 Divided by 100,000
(2) First 500,000	\$436.29	110.00%	\$479.92	500,000	\$ 2,399.60
(3) Second 500,000	\$413.31	125.00%	\$516.64	500,000	2,583.20
(4) Remaining Over 1,000,000	\$390.37	130.00%	\$507.48	755,065	3,831.80
(5) Total				<u>1,755,065</u>	<u>\$ 8,814.60</u>

(6) Monthly Franchise Fee due on the first day of each month  
January 1, 2022 - December 1, 2022 (rounded to the nearest \$5)

\$ 8,815.00

(7) Local advertising requirement per Paragraph 7 of the agreement:  
Per Person

\$ 0.1007

(8) Total to be expended within Franchise Territory in the Agreement Year:  
January 1, 2022 - December 31, 2022 (Row 1 x Row 10)

\$ 176,735.00

**Attachment B - Example of Monthly Franchise Fee Computations by Year**

**Beginning of Agreement Year 1 - 2017**

Row	Column	(1)	(2)	(3)	(4)	(5)
(1)	MRDP as of effective date of this agreement (1-1-2017)					1,755,065

	Population Tier	Initial FFP per 100,000 Population	Percentage Increase in the FFP pursuant to Section 4(b) of the Franchise Agreement	Resulting FFP per 100,000 Population pursuant to Section 4(b) of the Franchise Agreement Col. 1 x Col. 2	MRDP per Above	Monthly Franchise Fee Col. 3 x Col. 4 Divided by 100,000
(2)	First 500,000	\$376.98	110.00%	\$414.68	500,000	\$ 2,073.40
(3)	Second 500,000	\$357.15	125.00%	\$446.44	500,000	2,232.20
(4)	Remaining Over 1,000,000	\$337.31	130.00%	\$438.50	755,065	3,310.96
(5)	Total				<u>1,755,065</u>	<u>\$ 7,616.56</u>

(6) Monthly Franchise Fee due on the first day of each month (rounded to the nearest \$5)

<b>\$ 7,615.00</b>
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**Attachment B - Example of Monthly Franchise Fee Computations by Year**

**Beginning of Agreement Year 2 - 2018**

Row	Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1)	MRDP as of the effective date of this agreement (1-1-2017).							1,755,065
(2)	Percentage increase or decrease in the Index during the preceding calendar year (2017).							3.60%
(3)	The Index value for the month of December of the most recently completed calendar year (12-2017).							249.310
(4)	The Index value for the month of December of the calendar year next preceding the year in which this Agreement became effective (12-2016).							240.647
(5)	Index Fraction (Row 3 divided by Row 4)							1.0360

	Population Tier	Initial FFP per 100,000 Population	Index Fraction From Row 5	Adjusted FFP per 100,000 Population Col. 1 x Col. 2	Percentage Increase in the FFP pursuant to Section 4(b) of the Franchise Agreement	Resulting FFP per 100,000 Population pursuant to Section 4(b) of the Franchise Agreement Col. 3 x Col. 4	MRDP per Above	Monthly Franchise Fee Col. 5 x Col. 6 Divided by 100,000
(6)	First 500,000	\$376.98	1.0360	\$390.55	110.00%	\$429.61	500,000	\$ 2,148.05
(7)	Second 500,000	\$357.15	1.0360	\$370.01	125.00%	\$462.51	500,000	2,312.55
(8)	Remaining Over 1,000,000	\$337.31	1.0360	\$349.45	130.00%	\$454.29	755,065	3,430.18
(9)	Total						<u>1,755,065</u>	<u>\$ 7,890.78</u>

(10) Monthly Franchise Fee due on the first day of each month (rounded to the nearest \$5)

<b>\$ 7,890.00</b>
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**Attachment B - Example of Monthly Franchise Fee Computations by Year**

**Beginning of Agreement Year 3 - 2019**

Row	Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1)	MRDP as of the effective date of this agreement (1-1-2017).							1,755,065
(2)	Percentage increase or decrease in the Index during the preceding calendar year (2018).							3.10%
(3)	The Index value for the month of December of the most recently completed calendar year (12-2018).							257.039
(4)	The Index value for the month of December of the calendar year next preceding the year in which this Agreement became effective (12-2016).							240.647
(5)	Index Fraction (Row 3 divided by Row 4)							1.0681

	Population Tier	Initial FFP per 100,000 Population	Index Fraction From Row 5	Adjusted FFP per 100,000 Population Col. 1 x Col. 2	Percentage Increase in the FFP pursuant to Section 4(b) of the Franchise Agreement	Resulting FFP per 100,000 Population pursuant to Section 4(b) of the Franchise Agreement Col. 3 x Col. 4	MRDP per Above	Monthly Franchise Fee Col. 5 x Col. 6 Divided by 100,000
(6)	First 500,000	\$376.98	1.0681	\$402.65	110.00%	\$442.92	500,000	\$ 2,214.60
(7)	Second 500,000	\$357.15	1.0681	\$381.47	125.00%	\$476.84	500,000	2,384.20
(8)	Remaining Over 1,000,000	\$337.31	1.0681	\$360.28	130.00%	\$468.36	755,065	3,536.42
(9)	Total						<u>1,755,065</u>	<u>\$ 8,135.22</u>

(10) Monthly Franchise Fee due on the first day of each month (rounded to the nearest \$5)

\$ 8,135.00
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**Attachment B - Example of Monthly Franchise Fee Computations by Year**

**Beginning of Agreement Year 4 - 2020**

Row	Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1)	MRDP as of the effective date of this agreement (1-1-2017).							1,755,065
(2)	Percentage increase or decrease in the Index during the preceding calendar year (2019).							2.70%
(3)	The Index value for the month of December of the most recently completed calendar year (12-2019).							263.979
(4)	The Index value for the month of December of the calendar year next preceding the year in which this Agreement became effective (12-2016).							240.647
(5)	Index Fraction (Row 3 divided by Row 4)							1.0970

	Population Tier	Initial FFP per 100,000 Population	Index Fraction From Row 5	Adjusted FFP per 100,000 Population Col. 1 x Col. 2	Percentage Increase in the FFP pursuant to Section 4(b) of the Franchise Agreement	Resulting FFP per 100,000 Population pursuant to Section 4(b) of the Franchise Agreement Col. 3 x Col. 4	MRDP per Above	Monthly Franchise Fee Col. 5 x Col. 6 Divided by 100,000
(6)	First 500,000	\$376.98	1.0970	\$413.55	110.00%	\$454.91	500,000	\$ 2,274.55
(7)	Second 500,000	\$357.15	1.0970	\$391.79	125.00%	\$489.74	500,000	2,448.70
(8)	Remaining Over 1,000,000	\$337.31	1.0970	\$370.03	130.00%	\$481.04	755,065	3,632.16
(9)	Total						<u>1,755,065</u>	<u>\$ 8,355.41</u>

(10) Monthly Franchise Fee due on the first day of each month (rounded to the nearest \$5)

\$ 8,355.00
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**Attachment B - Example of Monthly Franchise Fee Computations by Year**

**Beginning of Agreement Year 5 - 2021**

Row	Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1)	MRDP as of the effective date of this agreement (1-1-2017).							1,755,065
(2)	Percentage increase or decrease in the Index during the preceding calendar year (2020).							2.40%
(3)	The Index value for the month of December of the most recently completed calendar year (12-2020)							270.314
(4)	The Index value for the month of December of the calendar year next preceding the year in which this Agreement became effective (12-2016).							240.647
(5)	Index Fraction (Row 3 divided by Row 4)							1.1233

	Population Tier	Initial FFP per 100,000 Population	Index Fraction From Row 5	Adjusted FFP per 100,000 Population Col. 1 x Col. 2	Percentage Increase in the FFP pursuant to Section 4(b) of the Franchise Agreement	Resulting FFP per 100,000 Population pursuant to Section 4(b) of the Franchise Agreement Col. 3 x Col. 4	MRDP per Above	Monthly Franchise Fee Col. 5 x Col. 6 Divided by 100,000
(6)	First 500,000	\$376.98	1.1233	\$423.46	110.00%	\$465.81	500,000	\$ 2,329.05
(7)	Second 500,000	\$357.15	1.1233	\$401.19	125.00%	\$501.49	500,000	2,507.45
(8)	Remaining Over 1,000,000	\$337.31	1.1233	\$378.90	130.00%	\$492.57	755,065	3,719.22
(9)	Total						<u>1,755,065</u>	<u>\$ 8,555.72</u>

(10) Monthly Franchise Fee due on the first day of each month (rounded to the nearest \$5)

\$ 8,555.00
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**Attachment B - Example of Monthly Franchise Fee Computations by Year**

**Beginning of Agreement Year 6 - 2022**

Row	Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1)	Updated MRDP as of the first month of the sixth year of this agreement (1-1-2022)							1,856,666
(2)	Percentage increase or decrease in the Index during the preceding calendar year (2021).							2.60%
(3)	The Index value for the month of December of the most recently completed calendar year (12-2021).							277.342
(4)	The Index value for the month of December of the calendar year next preceding the year in which this Agreement became effective (12-2016).							240.647
(5)	Index Fraction (Row 3 divided by Row 4)							1.1525

	Population Tier	Initial FFP per 100,000 Population	Index Fraction From Row 5	Adjusted FFP per 100,000 Population Col. 1 x Col. 2	Percentage Increase in the FFP pursuant to Section 4(b) of the Franchise Agreement	Resulting FFP per 100,000 Population pursuant to Section 4(b) of the Franchise Agreement Col. 3 x Col. 4	MRDP per Above	Monthly Franchise Fee Col. 5 x Col. 6 Divided by 100,000
(6)	First 500,000	\$376.98	1.1525	\$434.47	110.00%	\$477.92	500,000	\$ 2,389.60
(7)	Second 500,000	\$357.15	1.1525	\$411.62	125.00%	\$514.53	500,000	2,572.65
(8)	Remaining Over 1,000,000	\$337.31	1.1525	\$388.75	130.00%	\$505.38	856,666	4,329.42
(9)	Total						<u>1,856,666</u>	<u>\$ 9,291.67</u>

(10) Monthly Franchise Fee due on the first day of each month (rounded to the nearest \$5)

\$ 9,290.00
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**Attachment B - Example of Monthly Franchise Fee Computations by Year**

**Beginning of Agreement Year 7 - 2023**

Row	Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1)	Updated MRDP as of the first month of the sixth year of this agreement (1-1-2022).							1,856,666
(2)	Percentage increase or decrease in the Index during the preceding calendar year (2022).							2.40%
(3)	The Index value for the month of December of the most recently completed calendar year (12-2022).							283.998
(4)	The Index value for the month of December of the calendar year next preceding the year in which this Agreement became effective (12-2016).							240.647
(5)	Index Fraction (Row 3 divided by Row 4)							1.1801

	Population Tier	Initial FFP per 100,000 Population	Index Fraction From Row 5	Adjusted FFP per 100,000 Population Col. 1 x Col. 2	Percentage Increase in the FFP pursuant to Section 4(b) of the Franchise Agreement	Resulting FFP per 100,000 Population pursuant to Section 4(b) of the Franchise Agreement Col. 3 x Col. 4	MRDP per Above	Monthly Franchise Fee Col. 5 x Col. 6 Divided by 100,000
(6)	First 500,000	\$376.98	1.1801	\$444.87	110.00%	\$489.36	500,000	\$ 2,446.80
(7)	Second 500,000	\$357.15	1.1801	\$421.47	125.00%	\$526.84	500,000	2,634.20
(8)	Remaining Over 1,000,000	\$337.31	1.1801	\$398.06	130.00%	\$517.48	856,666	4,433.07
(9)	Total						<u>1,856,666</u>	<u>\$ 9,514.07</u>

(10) Monthly Franchise Fee due on the first day of each month (rounded to the nearest \$5)

\$ 9,515.00
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**Attachment B - Example of Monthly Franchise Fee Computations by Year**

**Beginning of Agreement Year 8 - 2024**

Row	Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1)	Updated MRDP as of the first month of the sixth year of this agreement (1-1-2022).							1,856,666
(2)	Percentage increase or decrease in the Index during the preceding calendar year (2023).							4.40%
(3)	The Index value for the month of December of the most recently completed calendar year (12-2023).							296.494
(4)	The Index value for the month of December of the calendar year next preceding the year in which this Agreement became effective (12-2016).							240.647
(5)	Index Fraction (Row 3 divided by Row 4)							1.2321

	Population Tier	Initial FFP per 100,000 Population	Index Fraction From Row 5	Adjusted FFP per 100,000 Population Col. 1 x Col. 2	Percentage Increase in the FFP pursuant to Section 4(b) of the Franchise Agreement	Resulting FFP per 100,000 Population pursuant to Section 4(b) of the Franchise Agreement Col. 3 x Col. 4	MRDP per Above	Monthly Franchise Fee Col. 5 x Col. 6 Divided by 100,000
(6)	First 500,000	\$376.98	1.2321	\$464.48	110.00%	\$510.93	500,000	\$ 2,554.65
(7)	Second 500,000	\$357.15	1.2321	\$440.04	125.00%	\$550.05	500,000	2,750.25
(8)	Remaining Over 1,000,000	\$337.31	1.2321	\$415.60	130.00%	\$540.28	856,666	4,628.39
(9)	Total						<u>1,856,666</u>	<u>\$ 9,933.29</u>

(10) Monthly Franchise Fee due on the first day of each month (rounded to the nearest \$5)

\$ 9,935.00
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**Attachment B - Example of Monthly Franchise Fee Computations by Year**

**Beginning of Agreement Year 9 - 2025**

Row	Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1)	Updated MRDP as of the first month of the sixth year of this agreement (1-1-2022).							1,856,666
(2)	Percentage increase or decrease in the Index during the preceding calendar year (2024).							2.50%
(3)	The Index value for the month of December of the most recently completed calendar year (12-2024).							303.906
(4)	The Index value for the month of December of the calendar year next preceding the year in which this Agreement became effective (12-2016).							240.647
(5)	Index Fraction (Row 3 divided by Row 4)							1.2629

	Population Tier	Initial FFP per 100,000 Population	Index Fraction From Row 5	Adjusted FFP per 100,000 Population Col. 1 x Col. 2	Percentage Increase in the FFP pursuant to Section 4(b) of the Franchise Agreement	Resulting FFP per 100,000 Population pursuant to Section 4(b) of the Franchise Agreement Col. 3 x Col. 4	MRDP per Above	Monthly Franchise Fee Col. 5 x Col. 6 Divided by 100,000
(6)	First 500,000	\$376.98	1.2629	\$476.09	110.00%	\$523.70	500,000	\$ 2,618.50
(7)	Second 500,000	\$357.15	1.2629	\$451.04	125.00%	\$563.80	500,000	2,819.00
(8)	Remaining Over 1,000,000	\$337.31	1.2629	\$425.99	130.00%	\$553.79	856,666	4,744.13
(9)	Total						<u>1,856,666</u>	<u>\$ 10,181.63</u>

(10) Monthly Franchise Fee due on the first day of each month (rounded to the nearest \$5)

\$ 10,180.00
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**Attachment B - Example of Monthly Franchise Fee Computations by Year**

**Beginning of Agreement Year 10 - 2026**

Row	Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1)	Updated MRDP as of the first month of the sixth year of this agreement (1-1-2022).							1,856,666
(2)	Percentage increase or decrease in the Index during the preceding calendar year (2025).							4.50%
(3)	The Index value for the month of December of the most recently completed calendar year (12-2025).							317.582
(4)	The Index value for the month of December of the calendar year next preceding the year in which this Agreement became effective (12-2016).							240.647
(5)	Index Fraction (Row 3 divided by Row 4)							1.3197

	Population Tier	Initial FFP per 100,000 Population	Index Fraction From Row 5	Adjusted FFP per 100,000 Population Col. 1 x Col. 2	Percentage Increase in the FFP pursuant to Section 4(b) of the Franchise Agreement	Resulting FFP per 100,000 Population pursuant to Section 4(b) of the Franchise Agreement Col. 3 x Col. 4	MRDP per Above	Monthly Franchise Fee Col. 5 x Col. 6 Divided by 100,000
(6)	First 500,000	\$376.98	1.3197	\$497.50	110.00%	\$547.25	500,000	\$ 2,736.25
(7)	Second 500,000	\$357.15	1.3197	\$471.33	125.00%	\$589.16	500,000	2,945.80
(8)	Remaining Over 1,000,000	\$337.31	1.3197	\$445.15	130.00%	\$578.70	856,666	4,957.52
(9)	Total						<u>1,856,666</u>	<u>\$ 10,639.57</u>

(10) Monthly Franchise Fee due on the first day of each month (rounded to the nearest \$5)

\$ 10,640.00
--------------

**Attachment C**

**Computation of the Reset FFP  
Used for the first renewal occurring on or after January 1, 2027**

Row	Column	(1)	(2)	(3)	(4)
(1)	Percentage change in the Index in the last calendar year of this agreement (2026).				2.37%
(2)	Index value for the month of December of the last year of this agreement (12-2026). (a)				325.109

<b>Reset FFP Calculation</b>				
Population Tier	Adjusted FFP per 100,000 Population as Most Recently Calculated for the Year Preceding Renewal (2026)  From Attachment B, Page 10 of 10, Col. 3  ( the MRCAFFP)	MRCAFFP Multiplied by the Percentage Change in the Index in the Last Calendar Year of this Agreement (2026)  Col. 4, Row 1 x Col. 1	MRCAFFP Multiplied by 5.0%  Col. 1 x .05	Reset FFP  Col. 1 + 2 + 3
(3) First 500,000	\$497.50	\$11.79	\$24.88	\$534.17
(4) Second 500,000	\$471.33	\$11.17	\$23.57	\$506.07
(5) Remaining Over 1,000,000	\$445.15	\$10.55	\$22.26	\$477.96

(a) Renewals will use the most recent available Index for the calendar year preceeding the renewal.

**Attachment C**

**Beginning of Renewal Agreement Year 1 - 2027**

Row	Column	(1)	(2)	(3)	(4)	(5)
(1)	Then current MRDP calculated as of the renewal date (1-1-2027).					1,925,158

	Population Tier	Initial FFP per 100,000 Population	Percentage Increase in the FFP pursuant to Section 4(b) of the Franchise Agreement	Resulting FFP per 100,000 Population pursuant to Section 4(b) of the Franchise Agreement Col. 1 x Col. 2	MRDP per Above	Monthly Franchise Fee Col. 3 x Col. 4 Divided by 100,000
(2)	First 500,000	\$534.17	110.00%	\$587.59	500,000	\$ 2,937.95
(3)	Second 500,000	\$506.07	125.00%	\$632.59	500,000	3,162.95
(4)	Remaining Over 1,000,000	\$477.96	130.00%	\$621.35	925,158	5,748.47
(5)	Total				<u>1,925,158</u>	<u>\$ 11,849.37</u>

(6) Monthly Franchise Fee due on the first day of each month (rounded to the nearest \$5)

\$ 11,850.00
--------------

**Attachment C**

**Beginning of Renewal Agreement Year 2 - 2028**

Row	Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1)	MRDP calculated as of the renewal date (1-1-2027).							1,925,158
(2)	Percentage increase or decrease in the Index during the preceding calendar year (2027).							3.60%
(3)	The Index value for the month of December of the most recently completed calendar year (12-2027).							336.813
(4)	The Index value for the month of December of the calendar year next preceding the year in which this Agreement became effective (12-2026).							325.109
(5)	Index Fraction (Row 3 divided by Row 4)							1.0360

	Population Tier	Initial FFP per 100,000 Population	Index Fraction From Row 5	Adjusted FFP per 100,000 Population Col. 1 x Col. 2	Percentage Increase in the FFP pursuant to Section 4(b) of the Franchise Agreement	Resulting FFP per 100,000 Population pursuant to Section 4(b) of the Franchise Agreement Col. 3 x Col. 4	MRDP per Above	Monthly Franchise Fee Col. 5 x Col. 6 Divided by 100,000
(6)	First 500,000	\$534.17	1.0360	\$553.40	110.00%	\$608.74	500,000	\$ 3,043.70
(7)	Second 500,000	\$506.07	1.0360	\$524.29	125.00%	\$655.36	500,000	3,276.80
(8)	Remaining Over 1,000,000	\$477.96	1.0360	\$495.17	130.00%	\$643.72	925,158	5,955.43
(9)	Total						<u>1,925,158</u>	<u>\$ 12,275.93</u>

(10) Monthly Franchise Fee due on the first day of each month (rounded to the nearest \$5)

\$ 12,275.00
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## **EXHIBIT 3**

Tables of Contents - Manuals

# **SPECIAL SKILLS TRAINING PROGRAM**

<b><u>SECTION</u></b>	<b><u>TABLE OF CONTENTS</u></b>	<b><u>PAGE</u></b>
1	LEADERS GUIDE	3
2	MODULE 1 BUILDING RAPPORT EXERCISE	18
3	MODULE 2 MAKING THE PRESENTATION EXERCISE	22
4	MODULE 3 ANSWERING OBJECTIONS EXERCISE	30
5	MODULE 4 CLOSING THE JOB EXERCISE	35
6	FINAL EXAM	42

# ADVERTISING MANUAL

<u>SECTION</u>	<u>TABLE OF CONTENTS</u>	<u>PAGE</u>
1	THE ROTO-ROOTER STORY	4
2	WELCOME TO ROTO-ROOTER	23
3	RADIO	15
4	TELEVISION	20
5	OUTDOOR	24
6	PUBLIC RELATIONS	44
7	YELLOW PAGES	60
8	PRINT	67
9	SPECIALTY ITEMS	81
10	PROMOTIONAL MATERIALS	99
11	DIRECT MAIL	119
12	APPENDIX	121

# CSR TRAINING MANUAL

<u>SECTION</u>	<u>TABLE OF CONTENTS</u>	<u>PAGE</u>
1	LEADERS GUIDE	3
2	WELCOME TO ROTO-ROOTER	23
3	MODULE 1 MEET THE ROTO-ROOTER TEAM	26
4	MODULE 2 BASIC TECHNICAL KNOWLEDGE AND ASKING GOOD QUESTIONS	31
5	MODULE 3 TELEPHONE ANSWERING SEQUENCE AND YOUR TELEPHONE PERSONALITY	51
6	MODULE 4 MEETING OBJECTIVES, HANDLING DIFFERENT CUSTOMER PERSONALITY TYPES, CLOSING THE SALE	59
7	MODULE 5 QUALITY CONTROL FOLLOW-UP PHONE CALLS	64
8	MODULE 6 THE CSR AND THE SERVICEMAN – TEAM COMMUNICATION	68
9	GLOSSARY	72

# PLUMBING OPERATIONS MANUAL

<u>SECTION</u>	<u>TABLE OF CONTENTS</u>	<u>PAGE</u>
1A	OVERVIEW	1A-1
2A	GETTING STARTED	2A-1
2B	ESTABLISHING AN OFFICE	2B-1
2C	TOOLS AND EQUIPMENT	2C-1
2D	STAFFING	2D-1
2E	COMPENSATION	0.2
2F	PRICING YOUR PLUMBING SERVICES	2F-1
3A	SUCCESSFULLY RUNNING A PLUMBING BUSINESS	3A-1
3B	DAY-TO-DAY ACTIVITIES	3B-1
3C	TRACKING PRODUCTIVITY – PLUMBERS	3C-1
3D	TRACKING PRODUCTIVITY – OFFICE STAFF	3D-1
3E	CONTROLLING INVENTORY	0.3
3F	COST MANAGEMENT	3F-1

# **ROTO-ROOTER PLUMBING-26 TRAINING PROGRAM INSTRUCTOR'S GUIDE**

<b><u>SECTION</u></b>	<b><u>TABLE OF CONTENTS</u></b>	<b><u>PAGE</u></b>
1	INSTRUCTOR'S GUIDE – LESSON PLAN 1	1-1
2	INSTRUCTOR'S GUIDE – LESSON PLAN 2	2-1
3	INSTRUCTOR'S GUIDE – LESSON PLAN 3	3-1
4	INSTRUCTOR'S GUIDE – LESSON PLAN 4	4-1
5	INSTRUCTOR'S GUIDE – LESSON PLAN 5	5-1
6	INSTRUCTOR'S GUIDE – LESSON PLAN 6	6-1
7	INSTRUCTOR'S GUIDE – LESSON PLAN 7	7-1
8	INSTRUCTOR'S GUIDE – LESSON PLAN 8	8-1
9	INSTRUCTOR'S GUIDE – LESSON PLAN 9	9-1
10	INSTRUCTOR'S GUIDE – LESSON PLAN 10	10-1
11	INSTRUCTOR'S GUIDE – LESSON PLAN 11	11-1
12	INSTRUCTOR'S GUIDE – LESSON PLAN 12	12-1
13	INSTRUCTOR'S GUIDE – LESSON PLAN 13	13-1
14	INSTRUCTOR'S GUIDE – LESSON PLAN 14	14-1
15	INSTRUCTOR'S GUIDE – LESSON PLAN 15	15-1
16	INSTRUCTOR'S GUIDE – LESSON PLAN 16	16-1
17	INSTRUCTOR'S GUIDE – LESSON PLAN 17	17-1
18	INSTRUCTOR'S GUIDE – LESSON PLAN 18	18-1
19	INSTRUCTOR'S GUIDE – LESSON PLAN 19	19-1
20	INSTRUCTOR'S GUIDE – LESSON PLAN 20	20-1
21	INSTRUCTOR'S GUIDE – LESSON PLAN 21	21-1
22	INSTRUCTOR'S GUIDE – LESSON PLAN 22	22-1
23	INSTRUCTOR'S GUIDE – LESSON PLAN 23	23-1
24	INSTRUCTOR'S GUIDE – LESSON PLAN 24	24-1
25	INSTRUCTOR'S GUIDE – LESSON PLAN 25	25-1
26	INSTRUCTOR'S GUIDE – LESSON PLAN 26	26-1

# ROTO-ROOTER PLUMBING-26 TRAINING PROGRAM STUDENT GUIDE – PART 1

<u>SECTION</u>	<u>TABLE OF CONTENTS</u>	<u>PAGE</u>
1	INTRODUCTION TO PLUMBING	1-1
2	JOB SAFETY	2-1
3	COMMON HAND AND POWER TOOLS	3-1
4	APPLIED MATHEMATICS FOR PLUMBING	4-1
5	PLUMBING CODE AND LAWS	5-1
6	READING BLUEPRINTS	6-1
7	PIPING MATERIALS IN PLUMBING	7-1
8	PLASTIC PIPES AND FITTINGS	8-1
9	CAST IRON SOIL PIPE AND FITTINGS	9-1
10	COPPER TUBING AND FITTINGS	10-1
11	STEEL PIPE AND FITTINGS	11-1
12	WATER SUPPLY SYSTEMS–PUBLIC & PRIVATE	12-1
13	PUMPS	13-1

# ROTO-ROOTER PLUMBING-26 TRAINING PROGRAM STUDENT GUIDE – PART 2

<u>SECTION</u>	<u>TABLE OF CONTENTS</u>	<u>PAGE</u>
14	SANITARY SYSTEMS	14-1
15	INSTALLATION PRACTICES	15-1
16	WATER CLOSETS, URINALS & BIDETS	16-1
17	FIXTURES AND APPLIANCES	17-1
18	WATER HEATERS	18-1
19	TESTING AND INSPECTIONS	19-1
20	VALVES	20-1
21	FAUCETS	21-1
22	BACKFLOW PREVENTION	22-1
23	WATER PIPE REPAIRS & EXTENSIONS	23-1
24	FROZEN WATER LINES	24-1
25	BASIC HEATING AND CONTROLS	25-1
26	PLUMBING REVIEW	26-1
	GLOSSARY	
	INDEX	

# WATER RESTORATION OPERATIONS MANUAL

<u>SECTION</u>	<u>TABLE OF CONTENTS</u>	<u>PAGE</u>
1A	OVERVIEW	1A-1
2A	GETTING STARTED	2A-1
2B	ESTABLISHING AN OFFICE	2B-1
2C	TOOLS AND EQUIPMENT	2C-1
2D	STAFFING	2D-1
2E	COMPENSATION	2E-1
2F	PRICING YOUR WATER RESTORATION SERVICES	2F-1
3A	SUCCESSFULLY RUNNING A WATER RESTORATION BUSINESS	3A-1
3B	DAY-TO-DAY ACTIVITIES	3B-1
3C	TRACKING PRODUCTIVITY – WATER RESTORATION ESTIMATORS	3C-1
3D	TRACKING PRODUCTIVITY – OFFICE STAFF	3D-1
3E	CONTROLLING INVENTORY	3E-1
3F	COST MANAGEMENT	3F-1

## **EXHIBIT 4**

List of Franchisees

# List of Franchisees

---

## **Alabama**

CALHOUN COUNTY, AL  
Randall P. Anderson  
9471 US Highway 431  
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### YUBA CITY, CA

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### YUCAIPA, CA

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#### ROME, GA

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## List of Franchisees

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### **Idaho**

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LA SALLE, IL  
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OGLE COUNTY, IL  
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Tillamook, OR 97141  
(503)-842-5393

### **Pennsylvania**

ALTOONA, PA  
Mark Stepowoy  
115 Sann Street  
Johnstown, PA 15904  
(814)-266-2707

BETHLEHEM, PA  
Bruce J. Homestead  
528 - 5th Street Whitehall,  
PA 18052  
(610)-433-8201

BLOOMSBURG, PA  
Eric Sorg  
131 Cross Road  
Bloomsburg, PA 17815  
(570)-784-6093

BRADFORD COUNTY, PA  
Ted S. Williams  
10291 Rte 414  
Canton, PA 17724  
(570)-673-4400

CLEARFIELD COUNTY, PA  
Fred Boyce  
212 Treasure Lake DuBois,  
PA 15801  
(814)-375-5657

ELK COUNTY, PA  
John T. Ball  
305 West Hemlock Avenue  
Kane, PA 16735  
(814)-837-7852

JOHNSTOWN, PA  
Mark Stepowoy  
115 Sann St  
Johnstown, PA 15904  
(814)-266-2707

STATE COLLEGE, PA John  
E. Moore  
PO Box 355  
Phillipsburg, PA 16866-0355  
(814)-234-2624

WILLIAMSPORT, PA James  
L. Beck  
324 Grimesville Road  
Williamsport, PA 17701  
(570)-323-7191

YORK, PA  
Kimmy S. Cole  
1732 W. King Street  
York, PA 17404  
(717)-751-4447

### **South Carolina**

ANDERSON, SC  
Patricia W. Eckberg  
136 Tanner Road Greenville,  
SC 29607  
(864)-226-9452

# List of Franchisees

---

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Harry E. Thornley  
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GREENVILLE, SC  
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HILTON HEAD ISLAND, SC  
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MYRTLE BEACH, SC Patricia  
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## **South Dakota**

SIOUX FALLS, SD  
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## **Tennessee**

ATHENS, TN  
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PO Box 687  
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BEDFORD COUNTY, TN  
Michael L. Watson  
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CHATTANOOGA, TN William  
R. Foxworth  
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(423)-855-1212

CLARKSVILLE, TN  
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CLEVELAND, TN  
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Cleveland, TN 37320-2065  
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COLUMBIA, TN  
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GREENEVILLE, TN Michael  
Harrell  
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JACKSON, TN  
Brian Carter  
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Greenville, SC 29607  
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MORRISTOWN, TN Michael  
S. Harrell  
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(423)-639-1221

MURFREESBORO, TN  
George L. Weist  
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TN 37133  
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SMITHVILLE, TN  
Michael L. Watson  
2097 Cranor Road  
Murfreesboro, TN 37130  
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## **Texas**

AMARILLO, TX  
Brian K. Boggs  
1831 South Austin  
Amarillo, TX 79109  
(806)-374-1234

BEAUMONT, TX  
Brian Bristol  
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TX 77656  
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BROWNSVILLE, TX  
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(361)-730-1777

CORPUS CHRISTI, TX  
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DENTON, TX  
Doyle R. Barksdale  
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Denton, TX 76202  
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Marsalis  
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LUBBOCK, TX  
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## List of Franchisees

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MCALLEN, TX  
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1579 N. Lexington Blvd.  
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MIDLAND-ODESSA, TX Ron  
Ainsworth  
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SAN ANGELO, TX  
Walter Spencer  
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San Angelo, TX 76901  
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SHERMAN, TX  
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Sherman, TX 75091  
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TEXARKANA, TX Bernhard  
Stockmann  
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Texarkana, TX 75501  
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VICTORIA, TX  
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Victoria, TX 77905  
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### Utah

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UT 84321-5050  
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ST. GEORGE, UT  
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St. George, UT 84771  
(435)-229-5203

### Vermont

MANCHESTER CENTER, VT  
Donald D. Dorr  
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Manchester Center, VT 05255  
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RUTLAND, VT  
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West Rutland, VT 05777  
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WINDSOR, VT  
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ROANOKE, VA  
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WAYNESBORO, VA  
Douglas Campbell  
21 Killdeer Lane  
Stuarts Draft, VA 24477  
(540)-886-4954

WINCHESTER, VA  
Donald R. Merritt  
5335 Crooked Lane  
Stephens City, VA 22655  
(540)-869-5309

### Washington

BELLINGHAM, WA  
Pamela S. Cash  
PO Box 29082  
Bellingham, WA 98228  
(360)-733-0760

CENTRALIA, WA Darryl  
L. Carley  
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Centralia, WA 98531  
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CLARKSTON, WA John  
Freand  
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KENNEWICK, WA John  
M. Ball  
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Kennewick, WA 99336  
(509)-783-7311

LONGVIEW, WA  
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WALLA WALLA, WA  
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# List of Franchisees

---

West Virginia CHARLESTON,  
WV John V. Carr  
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HUNTINGTON, WV  
John V. Carr  
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PARKERSBURG, WV  
John V. Carr  
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Barboursville, WV 25504  
(304)-529-4254

WHEELING, WV  
Thomas Clemens  
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(888)-284-0604

## **Wisconsin**

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Joseph J Cheke  
1786 North Silver Spring Drive  
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BROOKLYN, WI  
Kelly McCann  
611 North Burr Oak Avenue  
Oregon, WI 53575  
(608)-455-4481

CHIPPEWA FALLS, WI Danny  
A. Helland  
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EAU CLAIRE, WI  
Danny A. Helland  
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FOND DU LAC, WI  
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GREEN & IOWA COUNTIES, WI  
Kelly McCann  
611 North Burr Oak Avenue  
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(608)-455-4481

GREEN BAY, WI  
Joel B. Aulik  
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(920)-497-1983

JANESVILLE, WI  
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McCann  
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SHEBOYGAN, WI  
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(920)-893-0702

WASHINGTON COUNTY, WI  
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West Allis, WI 53227-1132  
(414)-541-4477

WAUSAU, WI  
Mark Stepowoy  
3994 North 20th Street Ozark,  
MO 65721  
(715)-359-5929

## **Wyoming**

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J. W. Schneider  
1835 Skyview Drive Casper,  
WY 82601  
(307)-234-0325

CHEYENNE, WY  
Walter Scott Spencer  
1515 Logan Avenue  
Cheyenne, WY 82001  
(307)-365-6131

GILLETTE, WY  
Brian D. Gerlach  
PO Box 7066  
Gillette, WY 82717-7066  
(307)-686-1573

LARAMIE, WY  
Dale Hansen  
PO Box 366  
Laramie, WY 82073  
(307)-721-8814

## **EXHIBIT 5**

Franchisees Who Left  
the System

**Alabama**

Wanda L. Thompson  
Decatur, AL  
256-355-2033

**Colorado**

David E. Teeter  
Craig, CO  
970-249-1918

**Illinois**

Dennis Head  
Byron, IL  
815-234-5005

**Indiana**

Perry Godlove  
Lafayette, IN  
574-583-8990

Perry Godlove  
Remington, IN  
574-583-8990

**Louisiana**

Byron L. Alleman  
Lafayette, LA  
337-234-4998

**New York**

Antionette Iacovelli  
Ithaca, NY  
607-272-1451

**Oregon**

James A. Haynie  
Pendleton, OR  
541-564-0100

**Pennsylvania**

John Prater  
Johnstown, PA  
814-255-2212

John Prater  
Altoona, PA  
814-255-2212

**Wisconsin**

Daniel S. Musch  
Fond Du Lac, WI  
920-922-9002

# **EXHIBIT 6**

Financial Statements

## ***Financial Review***

### **Contents**

<b>Report of Independent Registered Public Accounting Firm</b>	<b>2</b>
<b>Consolidated Statements of Income</b>	<b>4</b>
<b>Consolidated Balance Sheets</b>	<b>5</b>
<b>Consolidated Statements of Cash Flows</b>	<b>6</b>
<b>Consolidated Statements of Changes in Stockholders' Equity</b>	<b>7</b>
<b>Notes to Consolidated Financial Statements</b>	<b>8</b>
<b>Unaudited Consolidating Statements of Income</b>	<b>34</b>
<b>Management's Discussion and Analysis of Financial Conditions and Results of Operations</b>	<b>37</b>
<b>Corporate Officers and Directors List and Corporate Information</b>	<b>IBC</b>

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

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

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

The Company's management, including the President and Chief Executive Officer, Executive Vice President and Chief Financial Officer and Vice President and Controller, has conducted an evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2021, based on the framework established in *Internal Control—Integrated Framework* (2013) 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, 2021, based on criteria in *Internal Control—Integrated Framework* issued by COSO.

PricewaterhouseCoopers LLP, our independent registered public accounting firm, has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2021, as stated in their report which appears on pages 2 through 3.

## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Chemed Corporation

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Chemed Corporation and its subsidiaries (the “Company”) as of December 31, 2021 and 2020, and the related consolidated statements of income, of changes in stockholders’ equity and of cash flows for each of the three years in the period ended December 31, 2021, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

### ***Basis for Opinions***

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### ***Definition and Limitations of Internal Control over Financial Reporting***

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.

*Critical Audit Matters*

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The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

*VITAS Revenue Implicit Price Concessions*

As described in Note 2 to the consolidated financial statements, service revenue for VITAS is reported at the amount that reflects the ultimate consideration management expects to receive in exchange for providing patient care. These amounts are due from third-party payors, primarily commercial health insurers and government programs (Medicare and Medicaid). Management estimates the transaction price for patients with deductibles and coinsurance, along with those uninsured patients, based on historical experience and current conditions. The estimate of any contractual adjustments, discounts or implicit price concessions reduces the amount of revenue initially recognized. Settlement with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. The variable consideration is estimated based on the terms of the payment agreement, existing correspondence from the payor and the Company's historical settlement activity. The impact of these estimates is disclosed as implicit price concessions and totaled \$11.5 million for the year-ended December 31, 2021.

The principal considerations for our determination that performing procedures relating to VITAS revenue implicit price concessions is a critical audit matter are the significant judgment by management when developing the estimate of implicit price concessions used in determining the transaction price for each third-party payor. This in turn led to significant auditor judgment, subjectivity, and effort in performing procedures to evaluate the ultimate consideration management expects to receive, related to estimates of implicit price concessions including retroactive adjustments due to audits, reviews or investigations, the assessment of management's evaluation of correspondence from the payor and the Company's historical settlement activity.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process, including controls over the VITAS revenue implicit price concessions estimate. These procedures also included, among others, (i) developing an independent estimate of the implicit price concessions by utilizing historical settlement activity; (ii) comparing the independent estimate to management's estimate; and (iii) evaluating and testing management's process for developing the estimate related to retroactive adjustments due to audits, reviews or investigations, which included evaluating the reasonableness of the estimate based on existing correspondence from the payor and the Company's historical settlement activity. Evaluating the reasonableness of the implicit price concessions estimate involved inspecting evidence of correspondence from payors, testing the completeness and accuracy of historical settlement activity on a sample basis, and performing a retrospective review of consideration received subsequent to prior and current year-end to evaluate the reasonableness of the prior and current period estimated implicit price concessions applied by management.

/s/ PricewaterhouseCoopers LLP  
Cincinnati, Ohio  
February 28, 2022

We have served as the Company's auditor since 1971.

**CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share data)

For the Years Ended December 31,	2021	2020	2019
Service revenues and sales (Note 2)	\$ 2,139,261	\$ 2,079,583	\$ 1,938,555
Cost of services provided and goods sold (excluding depreciation)	1,369,458	1,378,197	1,321,126
Selling, general and administrative expenses	366,727	330,218	305,712
Depreciation	49,011	46,596	40,870
Amortization	10,040	9,987	4,335
Other operating (income)/expenses (Note 19)	987	(75,095)	9,132
Total costs and expenses	<u>1,796,223</u>	<u>1,689,903</u>	<u>1,681,175</u>
Income from operations	343,038	389,680	257,380
Interest expense	(1,868)	(2,355)	(4,535)
Other income--net (Note 10)	9,144	8,665	8,764
Income before income taxes	350,314	395,990	261,609
Income taxes (Note 11)	(81,764)	(76,524)	(41,686)
<b>Net Income</b>	<u>\$ 268,550</u>	<u>\$ 319,466</u>	<u>\$ 219,923</u>
<b>Earnings Per Share (Note 15)</b>			
Net Income	\$ 17.14	\$ 20.02	\$ 13.77
Average number of shares outstanding	<u>15,671</u>	<u>15,955</u>	<u>15,969</u>
<b>Diluted Earnings Per Share (Note 15)</b>			
Net Income	\$ 16.85	\$ 19.48	\$ 13.31
Average number of shares outstanding	<u>15,938</u>	<u>16,398</u>	<u>16,527</u>

The Notes to Consolidated Financial Statements are integral parts of these statements.

**CONSOLIDATED BALANCE SHEETS**

(in thousands, except shares and per share data)

December 31,	2021	2020
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 9)	\$ 32,895	\$ 162,675
Accounts receivable	137,217	126,853
Inventories	10,109	7,095
Prepaid income taxes	17,377	6,603
Prepaid expenses	32,688	26,177
Total current assets	230,286	329,403
Investments of deferred compensation plans held in trust (Notes 14 and 16)	98,884	88,811
Properties and equipment, at cost, less accumulated depreciation (Note 12)	193,680	187,820
Lease right of use asset (Note 13)	125,048	123,448
Identifiable intangible assets less accumulated amortization (Note 6)	108,096	118,085
Goodwill	578,591	578,585
Other assets	8,138	8,759
Total Assets	<u>\$ 1,342,723</u>	<u>\$ 1,434,911</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 73,024	\$ 54,234
Income taxes	41	9,464
Accrued insurance	55,918	54,703
Accrued compensation	95,598	91,282
Accrued legal	872	10,632
Short-term lease liability (Note 13)	37,913	36,200
Other current liabilities	39,033	42,593
Total current liabilities	302,399	299,108
Deferred income taxes (Note 11)	23,183	20,664
Long-term debt (Note 3)	185,000	-
Deferred compensation liabilities (Note 14)	98,597	88,456
Long-term lease liability (Note 13)	100,629	99,210
Other liabilities	9,642	26,273
Total Liabilities	<u>719,450</u>	<u>533,711</u>
<b>Commitments and contingencies (Note 17)</b>		
<b>Stockholders' Equity</b>		
Capital stock - authorized 80,000,000 shares \$1 par; issued 36,513,857 shares (2020 - 36,258,638 shares)	36,514	36,259
Paid-in capital	1,044,341	961,404
Retained earnings	1,970,311	1,723,777
Treasury stock - 21,601,325 shares (2020 - 20,351,562 shares), at cost	(2,430,094)	(1,822,579)
Deferred compensation payable in Company stock (Note 14)	2,201	2,339
Total Stockholders' Equity	<u>623,273</u>	<u>901,200</u>
Total Liabilities and Stockholders' Equity	<u>\$ 1,342,723</u>	<u>\$ 1,434,911</u>

The Notes to Consolidated Financial Statements are integral parts of these statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

For the Years Ended December 31,

	2021	2020	2019
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 268,550	\$ 319,466	\$ 219,923
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization	59,051	56,583	45,205
Stock option expense	22,502	18,422	14,831
Deferred payroll taxes	(18,175)	36,350	-
Litigation settlements	(9,440)	2,684	6,000
Noncash portion of long-term incentive compensation	7,745	7,208	5,740
Provision/(benefit) for deferred income taxes (Note 11)	2,400	1,433	(2,770)
Noncash directors' compensation	1,173	1,171	767
Amortization of debt issuance costs	306	306	306
Loss on sale of transportation equipment (Note 19)	-	-	2,266
Changes in operating assets and liabilities:			
(Increase)/decrease in accounts receivable	(8,431)	12,773	(19,247)
(Increase)/decrease in inventories	(3,014)	367	(1,757)
Increase in prepaid expenses	(6,511)	(3,027)	(3,491)
Increase in accounts payable and other current liabilities	9,832	19,096	28,417
Change in current income taxes	(20,401)	13,525	161
Net change in lease assets and liabilities	(44)	1,206	3,108
Increase in other assets	(10,305)	(11,834)	(11,963)
Increase in other liabilities	12,074	12,323	12,354
Other sources	1,285	1,237	1,399
Net cash provided by operating activities	<u>308,597</u>	<u>489,289</u>	<u>301,249</u>
<b>Cash Flows from Investing Activities</b>			
Capital expenditures	(58,675)	(58,831)	(53,022)
Business combinations, net of cash acquired (Note 7)	-	(3,600)	(138,010)
Other sources	918	871	272
Net cash used by investing activities	<u>(57,757)</u>	<u>(61,560)</u>	<u>(190,760)</u>
<b>Cash Flows from Financing Activities</b>			
Purchases of treasury stock	(576,042)	(175,594)	(92,631)
Proceeds from revolving line of credit	210,300	174,900	482,900
Payments on revolving line of credit	(25,300)	(264,900)	(482,100)
Proceeds from exercise of stock options (Note 4)	35,848	50,382	34,380
Dividends paid	(22,016)	(21,079)	(19,788)
Capital stock surrendered to pay taxes on stock-based compensation	(15,129)	(25,328)	(28,474)
Change in cash overdraft payable	11,884	(9,849)	(3,927)
Other (uses)/sources	(165)	256	478
Net cash used by financing activities	<u>(380,620)</u>	<u>(271,212)</u>	<u>(109,162)</u>
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(129,780)</b>	<b>156,517</b>	<b>1,327</b>
Cash and cash equivalents at beginning of year	<u>162,675</u>	<u>6,158</u>	<u>4,831</u>
Cash and cash equivalents at end of year	<u>\$ 32,895</u>	<u>\$ 162,675</u>	<u>\$ 6,158</u>

The Notes to Consolidated Financial Statements are integral parts of these statements.

**CONSOLIDATED STATEMENTS OF CHANGES  
IN STOCKHOLDERS' EQUITY**

(in thousands, except per share data)

	Capital Stock	Paid-in Capital	Retained Earnings	Treasury Stock- at Cost	Deferred Compensation Payable in Company Stock	Total
Balance at December 31, 2018	35,311	774,358	1,225,617	(1,446,296)	2,344	591,334
Net income	-	-	219,923	-	-	219,923
Dividends paid (\$1.24 per share)	-	-	(19,788)	-	-	(19,788)
Stock awards and exercise of stock options (Note 4)	500	85,788	-	(59,043)	-	27,245
Purchases of treasury stock (Note 18)	-	-	-	(92,631)	-	(92,631)
Other	-	525	-	30	(30)	525
Balance at December 31, 2019	35,811	860,671	1,425,752	(1,597,940)	2,314	726,608
Net income	-	-	319,466	-	-	319,466
Dividends paid (\$1.32 per share)	-	-	(21,079)	-	-	(21,079)
Stock awards and exercise of stock options (Note 4)	448	100,427	-	(49,020)	-	51,855
Purchases of treasury stock (Note 18)	-	-	-	(175,594)	-	(175,594)
Other	-	306	(362)	(25)	25	(56)
<b>Balance at December 31, 2020</b>	<b>36,259</b>	<b>961,404</b>	<b>1,723,777</b>	<b>(1,822,579)</b>	<b>2,339</b>	<b>901,200</b>
Net income	-	-	268,550	-	-	268,550
Dividends paid (\$1.40 per share)	-	-	(22,016)	-	-	(22,016)
Stock awards and exercise of stock options (Note 4)	255	82,921	-	(31,037)	-	52,139
Purchases of treasury stock (Note 18)	-	-	-	(576,483)	-	(576,483)
Other	-	16	-	5	(138)	(117)
<b>Balance at December 31, 2021</b>	<b>\$ 36,514</b>	<b>\$ 1,044,341</b>	<b>\$ 1,970,311</b>	<b>\$ (2,430,094)</b>	<b>\$ 2,201</b>	<b>\$ 623,273</b>

The Notes to Consolidated Financial Statements are integral parts of these statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Summary of Significant Accounting Policies

#### *NATURE OF OPERATIONS*

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

#### *PRINCIPLES OF ACCOUNTING*

The consolidated financial statements have been prepared on a going-concern basis. The consolidated financial statements include the accounts of Chemed Corporation and its wholly owned subsidiaries. All intercompany transactions have been eliminated. We have analyzed the provisions of the Financial Accounting Standards Board (“FASB”) authoritative guidance on the consolidation of variable interest entities relative to our contractual relationships with Roto-Rooter’s independent contractors and franchisees. The guidance requires the primary beneficiary of a Variable Interest Entity (“VIE”) to consolidate the accounts of the VIE. We have concluded that neither the independent contractors nor the franchisees are VIEs.

#### *CURRENT EXPECTED CREDIT LOSSES*

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments, Credit Losses. The Company’s only material financial asset subject to ASU No. 2016-13 is accounts receivable, trade and other. The Company recognizes an allowance for credit losses related to accounts receivable to present the net amount expected to be collected as of the balance sheet date. Accounts receivable are written-off when it is determined that the amount is deemed uncollectible. The following presents a detailed discussion of the operating subsidiaries’ accounts receivable and their evaluation of credit risk related to those accounts:

- Roto-Rooter’s trade accounts receivable are comprised mainly of amounts due from commercial entities and commercial insurance carriers. Roto-Rooter’s accounts receivable are generally outstanding for 90 days or less and there are no significant amounts outstanding greater than one year. Roto-Rooter historically has not experienced significant write-offs due to credit losses. For amounts due from commercial entities, Roto-Rooter utilizes a provision matrix based on historical credit losses by aging category. For amounts due from commercial insurance carriers, mainly from water restoration revenue, Roto-Rooter periodically reviews published default tables related to commercial insurance carriers and provides an allowance. As further discussed below, Roto-Rooter assesses on a quarterly basis whether the historical rates used are expected to be representative of credit risk over the life of the account taking into consideration existing economic conditions.
- In excess of 90% of VITAS’ accounts receivable are from the Federal or state governments under Medicare and Medicaid. VITAS believes that it is reasonable to expect that the risk of non-payment as a result of credit issues from these government entities is zero. As such, there is no allowance for credit losses established related to these accounts. The remainder of VITAS’ accounts are from commercial insurance carriers. VITAS’ accounts are generally outstanding for 90 days or less and there are no significant amounts outstanding greater than one year. VITAS historically has not experienced significant write-offs due to credit losses. VITAS periodically reviews published default tables related to commercial insurance carriers and provides an allowance. VITAS assesses on a quarterly basis whether these default rates are expected to be representative of credit risk over the life of the account taking into consideration existing economic conditions.

As further discussed in Note 3, Chemed has \$46.2 million in standby letters of credit outstanding. These letters of credit are with large, highly rated financial institutions. The Company periodically reviews published default tables related to these institutions to assess the need for an allowance. Chemed believes that any expected credit loss related to outstanding letters of credit based on current economic conditions is not material. The allowance for doubtful accounts is not material at December 31, 2021.

#### *CORONAVIRUS AID, RELIEF AND ECONOMIC STIMULUS (CARES) ACT*

We are closely monitoring the impact of the pandemic on all aspects of our business including impacts to employees, customers, patients, suppliers and vendors. The length and severity of the pandemic, coupled with related governmental actions including relief

acts and actions relating to our workforce at federal, state and local levels, and underlying economic disruption will determine the ultimate short-term and long-term impact to our business operations and financial results. To date, we have seen shifts in demand and mix of services, changes in referral patterns, an increase in usage and reliance on our technology infrastructure, difficulties hiring and retaining workforce and vaccine mandates imposed on our frontline healthcare workers, among other changes. We are unable to predict the myriad of possible issues that could arise or the ultimate effect to our businesses as a result of the unknown short, medium and long-term impacts that the pandemic will have on the United States economy and society as a whole.

On March 27, 2020, the CARES Act was passed. It provides economic relief to individuals and businesses affected by the coronavirus pandemic. It also contains provisions related to healthcare providers' operations and the issues caused by the coronavirus pandemic. The following are significant economic impacts for Chemed and its subsidiaries as a result of specific provisions of the CARES Act:

- A portion of the CARES Act provides \$100 billion from the Public Health and Social Services Emergency Fund (“Relief Fund”) to healthcare providers on the front lines of the coronavirus response. Of this distribution, \$30 billion was designated to be automatically distributed to facilities and healthcare providers based upon their 2019 Medicare fee-for-service revenue.
- On April 10, 2020 VITAS received \$80.2 million from the Relief Fund based upon VITAS’s 2019 Medicare fee-for-service revenue. The main condition that is attached to the grant is that the money will be used “only for health care related expenses or lost revenues that are attributable to coronavirus”. HHS guidance does not specifically designate what healthcare expenses are related to COVID-19. The guidance to date is general and broad but does provide some examples such as equipment and supplies, workforce training, reporting COVID-19 test results, securing separate facilities for COVID-19 patients and acquiring additional resources to expand or preserve care delivery.
- The additional conditions to the Relief Fund payment are specific in nature, such as the money cannot be used for gun control advocacy purposes, abortions, embryo research, etc. The Company is in compliance, and intends to maintain compliance, with these specific conditions. Based on this analysis, management believes that there is reasonable assurance that VITAS will comply with the conditions.
- Chemed and its subsidiaries deferred \$36.4 million of certain employer payroll taxes as permitted by the CARES Act in 2020. \$18.2 million was paid in 2021 and \$18.2 million is classified as a short-term liability.
- During the period from May 1, 2020 through March 31, 2022, the 2% Medicare sequestration reimbursement cut was suspended. Sequestration will be phased back into place at 1% from April 1, 2022 to June 30, 2022 and the full 2% thereafter. For the years ended December 31, 2021 and 2020 approximately \$23.9 million and \$16.8 million, respectively, was recognized as revenue due to the suspension of sequestration.

All CARES Act funds received were fully recognized during the year ended December 31, 2020. The Company analogized to International Accounting Standard 20 – *Accounting for Government Grants and Disclosures* (“IAS 20”) to account for the CARES Act grant received. Under IAS 20, once it is reasonably assured that the entity will comply with the conditions of the grant, the grant money should be recognized on a systematic basis over the periods in which the entity recognizes the related expenses or lost revenue. The portal to report utilization of CARES Act funds opened on July 1, 2021. We completed our reporting by the September 30, 2021 deadline.

The components of the amount recognized during 2020 are as follows, (in thousands):

Lost revenue	\$	44,784
Incremental PTO		21,425
Hard costs		14,016
Other operating income	\$	<u>80,225</u>

Hard costs are primarily expenses paid to outside vendors for personal protection equipment, COVID testing for front line workers, and deep cleaning of in-patient facilities. In April 2020, VITAS provided an extra two weeks of paid time off (“PTO”) to all frontline workers.

During the year ended December 31, 2020, VITAS recognized \$44.8 million for estimated lost revenue as a result of the pandemic. The December 27, 2020 COVID-19 relief bill gave providers multiple options to calculate lost revenue including budget to actual comparisons, 2019 actual to 2020 actual comparisons, or other systematic methods of calculation. We calculated lost revenue using the budget to actual method. Our 2020 budget was compiled, reviewed and approved prior to the start of the pandemic. Lost

## Chemed Corporation and Subsidiary Companies

revenues for 2020 based on our calculation was \$61.4 million, however only \$44.8 million was recognized for use under the grant received.

The Company recognized \$14.0 million of expense in 2021 for COVID-19 related costs. VITAS provided its workers an extra week of paid time off resulting in a \$10.0 million charge. The remaining costs are primarily for personal protection equipment.

### *CASH EQUIVALENTS*

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

### *CONCENTRATION OF RISK*

As of December 31, 2021, and 2020, approximately 73% and 74%, respectively, of VITAS' total accounts receivable balance were from Medicare and 21% and 20%, respectively, of VITAS' total accounts receivable balance were due from various state Medicaid or managed Medicaid programs. Combined accounts receivable from Medicare, Medicaid, and managed Medicaid represent approximately 80% of the consolidated net accounts receivable in the accompanying consolidated balance sheets as of December 31, 2021.

VITAS has a pharmacy services contract with one service provider for specified pharmacy services related to its hospice operations. A large majority of VITAS' pharmaceutical purchases are from this vendor. The pharmaceuticals purchased by VITAS are available through many providers in the United States. However, a disruption from VITAS' main service provider could adversely impact VITAS' operations, including temporary logistical challenges and increased cost associated with getting medication to our patients.

### *INVENTORIES*

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

### *DEPRECIATION AND PROPERTIES AND EQUIPMENT*

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

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

The weighted average lives of our property and equipment at December 31, 2021, were:

Buildings and building improvements	14.8 yrs.
Transportation equipment	9.3
Machinery and equipment	5.1
Computer software	3.8
Furniture and fixtures	4.5

*GOODWILL AND INTANGIBLE ASSETS*

The table below shows a rollforward of Goodwill (in thousands):

	<b>Vitas</b>	<b>Roto- Rooter</b>	<b>Total</b>
Balance at December 31, 2019	\$ 333,331	\$ 244,036	\$ 577,367
Business combinations	-	1,193	1,193
Foreign currency adjustments	-	25	25
Balance at December 31, 2020	\$ 333,331	\$ 245,254	\$ 578,585
Foreign currency adjustments	-	6	6
Balance at December 31, 2021	<u>\$ 333,331</u>	<u>\$ 245,260</u>	<u>\$ 578,591</u>

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. Reacquired franchise rights are amortized over the remaining term of the franchise agreement at the time of acquisition. The weighted average lives of our identifiable, definite-lived intangible assets at December 31, 2021, were:

Covenants not to compete	6.5 yrs.
Reacquired franchise rights	7.4
Referral networks	10.0
Customer lists	16.8

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

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

We completed our qualitative analysis for impairment of goodwill and our indefinite-lived intangible assets as of October 1, 2021. Based on our assessment, we do not believe that it is more likely than not that our reporting units or indefinite-lived assets fair values are less than their carrying values.

*LONG-LIVED ASSETS*

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

*LEASE ACCOUNTING*

In February 2016, the FASB issued Accounting Standards Update “ASU No. 2016-02 Leases” which introduced a lessee model that brings most leases onto the balance sheet and updates lessor accounting to align with changes in the lessee model and the revenue recognition standard. This standard is also referred to as Accountings Standards Codification No.842 (“ASC 842”).

Our leases have remaining terms of less than 1 year to 10 years, some of which include options to extend the lease for up to 5 years, and some of which include options to terminate the lease within 1 year. We made a policy election to exclude leases with a lease term less than 12 month from being recorded on the balance sheet. We adopted the practical expedient related to the combining of lease and non-lease components, which allows us to account for the lease and non-lease components as a single lease component. We do not currently have any finance leases, all lease information disclosed is related to operating leases.

Chemed and each of its operating subsidiaries are service companies. As such, real estate leases comprise the largest lease obligation (and conversely, right of use asset) in our lease portfolio. VITAS has leased office space, as well as space for inpatient units (“IPUs”) and/or contract beds within hospitals. Roto-Rooter mainly has leased office space.

Roto-Rooter purchases equipment and leases it to certain of its independent contractors. We analyzed these leases in accordance with ASC 842 and determined they are operating leases. As a result, Roto-Rooter will continue to capitalize the equipment underlying these leases, depreciate the equipment and recognize rental income.

#### *CLOUD COMPUTING*

As of December 31, 2021, Roto-Rooter has three cloud computing arrangements that are service contracts. We have capitalized \$332,000 related to these projects. During 2021, Roto-Rooter implemented a system to assist in technician dispatch which was placed into service during the second quarter of 2021. For the year ended December 31, 2021, \$94,000 has been amortized. The two other projects consist of the development of a single source data warehouse and human resource system integration with our enterprise software. No amortization has been recorded for these two projects as they have not been placed into service.

VITAS utilizes a human resource system that is considered a cloud computing arrangement. We have capitalized approximately \$8.7 million related to implementation of this project which are included in prepaid assets in the accompanying balance sheets. VITAS human resource system was placed into service in January 2020 and is being amortized over 5 years. For the years ended December 31, 2021 and 2020, \$995,000 and \$1.1 million, respectively, has been amortized.

#### *OTHER ASSETS*

Debt issuance costs are included in other assets. Issuance costs related to revolving credit agreements are amortized using the straight-line method, over the life of the agreement. All other issuance costs are amortized using the effective interest method over the life of the debt. There are no amounts included in other assets that individually exceed 5% of total assets.

#### *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 statements of income.

#### *OPERATING EXPENSES*

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

#### *ADVERTISING*

We expense the production costs of advertising the first time the advertising takes place. We pay for and expense the cost of internet advertising and placement on a “per click” basis. Similarly, the majority of our telephone directory listings and certain types of internet advertising are paid for and expensed on a “cost per call” basis. For those directories that are not on this billing basis, the cost of the directory is expensed when the directories are placed in circulation. Advertising expense for the year ended December 31, 2021, was \$62.1 million (2020 – \$54.4 million; 2019 - \$49.5 million).

#### *OTHER CURRENT LIABILITIES*

There are no amounts included in other current liabilities that individually exceed 5% of total current liabilities, with the exception of the Medicare cap liability, which is discussed further in Note 2.

### *STOCK-BASED COMPENSATION PLANS*

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

### *INSURANCE ACCRUALS*

For our Roto-Rooter segment and Corporate Office, we initially 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 by stop-loss coverage at \$750,000. In developing our estimates, we accumulate historical claims data for the previous 10 years to calculate loss development factors ("LDF") by insurance coverage type. LDFs are applied to known claims to estimate the ultimate potential liability for known and unknown claims for each open policy year. LDFs are updated annually. Because this methodology relies heavily on historical claims data, the key risk is whether the historical claims are an accurate predictor of future claims exposure. The risk also exists that certain claims have been incurred and not reported on a timely basis. To mitigate these risks, in conjunction with our TPA, we closely monitor claims to ensure timely accumulation of data and compare claims trends with the industry experience of our TPA.

For the VITAS segment, we initially self-insure for workers' compensation claims. Currently, VITAS' exposure on any single claim is capped by stop-loss coverage at \$1,000,000. For VITAS' self-insurance accruals for workers' compensation, the valuation methods used are similar to those used internally for our other business units. We are also insured for other risks with respect to professional liability with a deductible of \$1,000,000.

Our casualty insurance liabilities are recorded gross before any estimated recovery for amounts exceeding our stop loss limits. Estimated recoveries from insurance carriers are recorded as accounts receivable. Claims experience adjustments to our casualty and workers' compensation accrual for the years ended December 31, 2021, 2020 and 2019, were net pretax credits of (\$6,332,000), (\$4,578,000), and (\$1,664,000) respectively.

### *INCOME TAXES*

In December 2019, the FASB issued Accounting Standards Update "ASU No. 2019-12 – Simplifying the Accounting for Income Taxes". The ASU adds new guidance to simplify accounting for income taxes, changes the accounting for certain income tax transactions and makes minor improvements to the codifications. The ASU is effective for the Company on January 1, 2021. There were no material impacts from adoption of this ASU.

Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards 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 due to insufficient taxable income within the carryback or carryforward period available under the tax laws. Deferred tax assets and liabilities are adjusted for the effects of changes in law and rates on the date of enactment.

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

Our effective income tax rate was 23.3%, 19.3% and 15.9% for the years ended December 31, 2021, 2020, and 2019, respectively. Excess tax benefit on stock options reduced our income tax expenses by \$9.9 million, \$26.1 million, and \$24.2 million for the years ended December 31, 2021, 2020 and 2019, respectively.

### *CONTINGENCIES*

As discussed in Note 17, we are subject to various lawsuits and claims in the normal course of our business. In addition, we periodically receive communications from governmental and regulatory agencies concerning compliance with Medicare and Medicaid billing requirements at our VITAS subsidiary. We establish reserves for specific, uninsured liabilities in connection with regulatory and legal action that we deem to be probable and reasonably estimable. We record legal fees associated with legal and regulatory actions as the costs are incurred. We disclose material loss contingencies that are probable but not reasonably estimable and those that are at least reasonably possible.

## *BUSINESS COMBINATIONS*

We account for acquired businesses using the acquisition method of accounting. All assets acquired and liabilities assumed are recorded at their respective fair values at the date of acquisition. The determination of fair value involves estimates and the use of valuation techniques when market value is not readily available. We use various techniques to determine fair value in accordance with accepted valuation models, primarily the income approach. The significant assumptions used in developing fair values include, but are not limited to, revenue growth rates, the amount and timing of future cash flows, discount rates, useful lives, royalty rates and future tax rates. The excess of purchase price over the fair value of assets and liabilities acquired is recorded as goodwill. See Note 7 for discussion of recent acquisitions.

## *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.

## **2. Revenue Recognition**

In May 2014, the FASB issued Accounting Standards Update “ASU No. 2014-09 – Revenue from Contracts with Customers.” The standard and subsequent amendments are theoretically intended to develop a common revenue standard for removing inconsistencies and weaknesses, improve comparability, provide for more useful information to users through improved disclosure requirements and simplify the preparation of financial statements. The standard is also referred to as Accounting Standards Codification No. 606 (“ASC 606”).

## *VITAS*

Service revenue for VITAS is reported at the amount that reflects the ultimate consideration we expect to receive in exchange for providing patient care. These amounts are due from third-party payors, primarily commercial health insurers and government programs (Medicare and Medicaid), and includes variable consideration for revenue adjustments due to settlements of audits and reviews, as well as certain hospice-specific revenue capitations. Amounts are generally billed monthly or subsequent to patient discharge. Subsequent changes in the transaction price initially recognized are not significant.

Hospice services are provided on a daily basis and the type of service provided is determined based on a physician’s determination of each patient’s specific needs on that given day. Reimbursement rates for hospice services are on a per diem basis regardless of the type of service provided or the payor. Reimbursement rates from government programs are established by the appropriate governmental agency and are standard across all hospice providers. Reimbursement rates from health insurers are negotiated with each payor and generally structured to closely mirror the Medicare reimbursement model. The types of hospice services provided and associated reimbursement model for each are as follows:

*Routine Home Care* occurs when a patient receives hospice care in their home, including a nursing home setting. 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. For Medicare patients, the routine home care rate reflects a two-tiered rate, with a higher rate for the first 60 days of a hospice patient’s care and a lower rate for days 61 and after. In addition, there is a Service Intensity Add-on payment which covers direct home care visits conducted by a registered nurse or social worker in the last seven days of a hospice patient’s life, reimbursed up to 4 hours per day in 15 minute increments at the continuous home care rate.

*General Inpatient Care* occurs when a patient requires services in a controlled setting for a short period of time 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* is provided to patients while at home, including a nursing home setting, 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 at midnight. The care must be predominantly nursing care provided by either a registered nurse or licensed nurse practitioner. While the published Medicare continuous home care rates are daily rates, Medicare pays for continuous home care in 15 minute increments. This 15 minute rate is calculated by dividing the daily rate by 96.

*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.

Each level of care represents a separate promise under the contract of care and is provided independently for each patient contingent upon the patient's specific medical needs as determined by a physician. However, the clinical criteria used to determine a patient's level of care is consistent across all patients, given that, each patient is subject to the same payor rules and regulations. As a result, we have concluded that each level of care is capable of being distinct and is distinct in the context of the contract. Furthermore, we have determined that each level of care represents a stand ready service provided as a series of either days or hours of patient care. We believe that the performance obligations for each level of care meet criteria to be satisfied over time. VITAS recognizes revenue based on the service output. VITAS believes this to be the most faithful depiction of the transfer of control of services as the patient simultaneously receives and consumes the benefits provided by our performance. Revenue is recognized on a daily or hourly basis for each patient in accordance with the reimbursement model for each type of service. VITAS' performance obligations relate to contracts with an expected duration of less than one year. Therefore, VITAS has elected to apply the optional exception provided in ASC 606 and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially satisfied performance obligations referred to above relate to bereavement services provided to patients' families for at least 12 months after discharge.

Care is provided to patients regardless of their ability to pay. Patients who meet our criteria for charity care are provided care without charge. There is no revenue or associated accounts receivable in the accompanying consolidated financial statements related to charity care. The cost of providing charity care during the years ended December 31, 2021, 2020 and 2019, was \$8.5 million, \$8.1 million and \$9.0 million, respectively and is included in cost of services provided and goods sold. The cost of charity care is calculated by taking the ratio of charity care days to total days of care and multiplying by total cost of care.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance which vary in amount. VITAS also provides service to patients without a reimbursement source and may offer those patients discounts from standard charges. VITAS estimates the transaction price for patients with deductibles and coinsurance, along with those uninsured patients, based on historical experience and current conditions. The estimate of any contractual adjustments, discounts or implicit price concessions reduces the amount of revenue initially recognized. Subsequent changes to the estimate of the transaction price are recorded as adjustments to patient service revenue in the period of change. Subsequent changes that are determined to be the result of an adverse change in the patients' ability to pay (i.e. change in credit risk) are recorded as bad debt expense. VITAS has no material adjustments related to subsequent changes in the estimate of the transaction price or subsequent changes as the result of an adverse change in the patient's ability to pay for any period reported.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. Compliance with such laws and regulations may be subject to future government review and interpretation. Additionally, the contracts we have with commercial health insurance payors provide for retroactive audit and review of claims. Settlement with third party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. The variable consideration is estimated based on the terms of the payment agreement, existing correspondence from the payor and our historical settlement activity. These estimates are adjusted in future periods, as new information becomes available.

We are subject to certain limitations on Medicare payments for services which are considered variable consideration, as follows:

*Inpatient Cap.* 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 during the years ended December 31, 2021, 2020 and 2019.

*Medicare Cap.* We are also subject to a Medicare annual per-beneficiary cap ("Medicare cap"). Compliance with the Medicare cap is measured in one of two ways based on a provider election. The "streamlined" method compares 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 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. At December 31, 2021, all our programs except one are using the "streamlined" method.

The “proportional” method compares 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 the Medicare provider number between September 28 and September 27 of the following year with the product of the per beneficiary cap amount and a pro-rated number of Medicare beneficiaries receiving hospice services from that program during the same period. The pro-rated number of Medicare beneficiaries is calculated based on the ratio of days the beneficiary received hospice services during the measurement period to the total number of days the beneficiary received hospice services.

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

In 2013, the U.S. government implemented automatic budget reductions of 2.0% for all government payees, including hospice benefits paid under the Medicare program. In 2015, CMS determined that the Medicare cap should be calculated “as if” sequestration did not occur. As a result of this decision, VITAS has received notification from our third-party intermediary that an additional \$8.7 million is owed for Medicare cap in three programs arising during the 2013 through 2020 measurement periods. The amounts are automatically deducted from our semi-monthly periodic interim payments (“PIP”). We do not believe that CMS is authorized under the sequestration authority or the statutory methodology for establishing the Medicare cap to the amounts they have withheld and intend to withhold under their current “as if” methodology. We have appealed CMS’s methodology change.

During the year ended December 31, 2021 we recorded \$6.6 million in Medicare cap revenue reduction related to two programs’ projected 2021 measurement period liability and two programs’ 2022 measurement period liability.

During the year ended December 31, 2020 we recorded \$6.7 million in Medicare cap revenue reduction related to four programs’ projected 2020 measurement period liability.

During the year ended December 31, 2019, we recorded \$12.4 million in Medicare cap revenue reduction related to four programs’ projected 2020 measurement period liability and four programs’ 2019 measurement period liability.

At December 31, 2021 and 2020, the Medicare cap liability included in other current liabilities on the accompanying balance sheets was \$13.5 million and \$15.1 million, respectively.

For VITAS’ patients in the nursing home setting in which Medicaid pays the nursing home room and board, VITAS serves as a pass-through between Medicaid and the nursing home. We are responsible for paying the nursing home for that patient’s room and board. Medicaid reimburses us for 95% of the amount we have paid. This results in a 5% net expense for VITAS related to nursing home room and board. This transaction creates a performance obligation in that VITAS is facilitating room and board being delivered to our patient. As a result, the 5% net expense is recognized as a contra-revenue account under ASC 606 in the accompanying financial statements.

Chemed Corporation and Subsidiary Companies

The composition of patient care service revenue by payor and level of care for the year ended December 31, 2021 is as follows (in thousands):

	<u>Medicare</u>	<u>Medicaid</u>	<u>Commercial</u>	<u>Total</u>
Routine home care	\$ 997,846	\$ 46,785	\$ 25,135	\$ 1,069,766
Continuous care	85,626	4,689	4,023	94,338
Inpatient care	98,243	9,486	5,458	113,187
	<u>\$ 1,181,715</u>	<u>\$ 60,960</u>	<u>\$ 34,616</u>	<u>\$ 1,277,291</u>
All other revenue - self-pay, respite care, etc.				12,142
Subtotal				\$ 1,289,433
Medicare cap adjustment				(6,597)
Implicit price concessions				(11,530)
Room and board, net				(10,060)
Net revenue				<u>\$ 1,261,246</u>

The composition of patient care service revenue by payor and level of care for the year ended December 31, 2020 is as follows (in thousands):

	<u>Medicare</u>	<u>Medicaid</u>	<u>Commercial</u>	<u>Total</u>
Routine home care	\$ 1,033,487	\$ 48,813	\$ 24,058	\$ 1,106,358
Continuous care	123,696	6,344	5,971	136,011
Inpatient care	100,259	9,646	5,051	114,956
	<u>\$ 1,257,442</u>	<u>\$ 64,803</u>	<u>\$ 35,080</u>	<u>\$ 1,357,325</u>
All other revenue - self-pay, respite care, etc.				11,164
Subtotal				\$ 1,368,489
Medicare cap adjustment				(6,678)
Implicit price concessions				(14,970)
Room and board, net				(12,174)
Net revenue				<u>\$ 1,334,667</u>

The composition of patient care service revenue by payor and level of care for the year ended December 31, 2019 is as follows (in thousands):

	<u>Medicare</u>	<u>Medicaid</u>	<u>Commercial</u>	<u>Total</u>
Routine home care	\$ 1,003,308	\$ 48,420	\$ 24,297	\$ 1,076,025
Continuous care	121,019	6,712	5,742	133,473
Inpatient care	84,752	9,102	6,066	99,920
	<u>\$ 1,209,079</u>	<u>\$ 64,234</u>	<u>\$ 36,105</u>	<u>\$ 1,309,418</u>
All other revenue - self-pay, respite care, etc.				10,433
Subtotal				\$ 1,319,851
Medicare cap adjustment				(12,415)
Implicit price concessions				(14,893)
Room and board, net				(11,359)
Net revenue				<u>\$ 1,281,184</u>

Roto-Rooter

Roto-Rooter provides plumbing, drain cleaning, water restoration and other related services to both residential and commercial customers primarily in the United States. Services are provided through a network of company-owned branches, independent contractors and franchisees. Service revenue for Roto-Rooter is reported at the amount that reflects the ultimate consideration we expect to receive in exchange for providing services.

Roto-Rooter owns and operates branches focusing mainly on large population centers in the United States. Roto-Rooter's primary lines of business in company-owned branches consist of plumbing, sewer and drain cleaning, excavation and water restoration. For purposes of ASC 606 analysis, plumbing, sewer and drain cleaning, and excavation have been combined into one portfolio and are referred to as "short-term core services". Water restoration is analyzed as a separate portfolio. The following describes the key characteristics of these portfolios:

*Short-term Core Services* are plumbing, drain and sewer cleaning and excavation services. These services are provided to both commercial and residential customers. The duration of services provided in this category range from a few hours to a few days. There are no significant warranty costs or on-going obligations to the customer once a service has been completed. For residential customers, payment is usually received at the time of job completion before the Roto-Rooter technician leaves the residence. Commercial customers may be granted credit subject to internally designated authority limits and credit check guidelines. If credit is granted, payment terms are generally 30 days or less.

Each job in this category is a distinct service with a distinct performance obligation to the customer. Revenue is recognized at the completion of each job. Variable consideration consists of pre-invoice discounts and post-invoice discounts. Pre-invoice discounts are given in the form of coupons or price concessions. Post-invoice discounts consist of credit memos generally granted to resolve customer service issues. Variable consideration is estimated based on historical activity and recorded at the time service is completed.

*Water Restoration Services* involve the remediation of water and humidity after a flood. These services are provided to both commercial and residential customers. The duration of services provided in this category generally ranges from 3 to 5 days. There are no significant warranties or on-going obligations to the customer once service has been completed. The majority of these services are paid in part by the customer's insurance company. Variable consideration relates primarily to allowances taken by insurance companies upon payment. Variable consideration is estimated based on historical activity and recorded at the time service is completed.

For both short-term core services and water restoration services, Roto-Rooter satisfies its performance obligation at a point in time. The services provided generally involve fixing plumbing, drainage or flood-related issues at the customer's property. At the time service is complete, the customer acknowledges its obligation to pay for service and its satisfaction with the service performed. This provides evidence that the customer has accepted the service and Roto-Rooter is now entitled to payment. As such, Roto-Rooter recognizes revenue for these services upon completion of the job and receipt of customer acknowledgement. Roto-Rooter's performance obligations for short-term core services and water restoration services relate to contracts with an expected duration of less than a year. Therefore, Roto-Rooter has elected to apply the optional exception provided in ASC 606 and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Roto-Rooter does not have significant unsatisfied or partially unsatisfied performance obligations at the time of initial revenue recognition for short-term core or water restoration services.

Roto-Rooter owns the rights to certain territories and contracts with independent third-parties to operate the territory under Roto-Rooter's registered trademarks. The contract is for a specified term but cancellable by either party without penalty with 90 days advance notice. Under the terms of these arrangements, Roto-Rooter provides certain back office support and advertising along with a limited license to use Roto-Rooter's registered trademarks. The independent contractor is responsible for all day-to-day management of the business including staffing decisions and pricing of services provided. All performance obligations of Roto-Rooter cease at the termination of the arrangement.

Independent contractors pay Roto-Rooter a standard fee calculated as a percentage of their cash collection from weekly sales. The primary value for the independent contractors under these arrangements is the right to use Roto-Rooter's registered trademarks. Roto-Rooter recognizes revenue from independent contractors over-time (weekly) as the independent contractor's labor sales are completed and payment from customers are received. Payment from independent contractors is also received on a weekly basis. The use of Roto-Rooter's registered trademarks and advertising provides immediate value to the independent contractor as a result of Roto-Rooter's nationally recognized brand. Therefore, over-time recognition provides the most faithful depiction of the transfer of services

as the customer simultaneously receives and consumes the benefits provided. There is no significant variable consideration related to these arrangements.

Roto-Rooter has licensed the rights to operate under Roto-Rooter’s registered trademarks in other territories to franchisees. The contract is for a 10 year term but cancellable by Roto-Rooter for cause with 60 day advance notice without penalty. The franchisee may cancel the contract for any reason with 60 days advance notice without penalty. Under the terms of the contract, Roto-Rooter provides national advertising and consultation on various aspects of operating a Roto-Rooter business along with the right to use Roto-Rooter’s registered trademarks. The franchisee is responsible for all day-to-day management of the business including staffing decisions, pricing of services provided and local advertising spend and placement. All performance obligations of Roto-Rooter cease at the termination of the arrangement.

Franchisees pay Roto-Rooter a standard monthly fee based on the population within the franchise territory. The standard fee is revised on a yearly basis based on changes in the Consumer Price Index for All Urban Consumers. The primary value for the franchisees under this arrangement is the right to use Roto-Rooter’s registered trademarks for plumbing, drain care cleaning and water restoration services. Roto-Rooter recognizes revenue from franchisees over-time (monthly). Payment from franchisees is also received on a monthly basis. The use of Roto-Rooter’s registered trademarks and advertising provides immediate value to the franchisees as a result of Roto-Rooter’s nationally recognized brand. Therefore, over-time recognition provides the most faithful depiction of the transfer of services as the customer simultaneously receives and consumes the benefits provided. There is no significant variable consideration related to these arrangements.

The composition of disaggregated revenue for the years ended December 31, 2021, 2020 and 2019 is as follows (in thousands):

	2021	2020	2019
Short-term core service jobs	\$ 647,152	\$ 552,500	\$ 482,625
Water restoration	153,115	126,378	115,949
Contractor revenue	76,858	64,727	58,086
Franchise fees	5,068	4,893	6,152
All other	15,576	13,537	12,279
Subtotal	\$ 897,769	\$ 762,035	\$ 675,091
Implicit price concessions and credit memos	(19,754)	(17,119)	(17,720)
Net revenue	<u>\$ 878,015</u>	<u>\$ 744,916</u>	<u>\$ 657,371</u>

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

On June 20, 2018, we replaced our existing credit agreement with the Fourth Amended and Restated Credit Agreement (“2018 Credit Agreement”). Terms of the 2018 Credit Agreement consist of a five year, \$450 million revolving credit facility and a \$150 million expansion feature, which may consist of term loans or additional revolving commitments. The 2018 Credit Agreement has a floating interest rate that is generally LIBOR plus a tiered additional rate which varies based on our current leverage ratio. For December 31, 2021 and 2020, respectively, the interest rate is LIBOR plus 100 basis points. The 2018 Credit Agreement includes transition provisions in the instance LIBOR is no longer published or used as an industry-accepted rate. Any amounts outstanding under the 2018 Credit Agreement at its June 20, 2023 maturity date will be immediately due and payable.

Debt issuance costs associated with the prior credit agreement were not written off as the lenders and their relative percentage participation in the facility did not change. With respect to the 2018 Credit Agreement, deferred financing costs were \$1.0 million.

The debt outstanding at December 31, 2021 and 2020 consists of the following (in thousands):

	December 31,	
	2021	2020
Revolver	\$ 185,000	\$ -
Term loan	-	-
Total	185,000	-
Current portion	-	-
Long-term debt	<u>\$ 185,000</u>	<u>\$ -</u>

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

<b>2021</b>	<b>\$ 1,403</b>
2020	2,028
2019	4,125

The 2018 Credit Agreement contains the following quarterly financial covenants effective as of December 31, 2021:

Description	Requirement	Chemed December 31, 2021
Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA)	< 3.50 to 1.00	0.52 to 1.00
Fixed Charge Coverage Ratio (Consolidated Free Cash Flow/Consolidated Fixed Charges)	> 1.50 to 1.00	3.12 to 1.00

We are in compliance with all debt covenants as of December 31, 2021. We have issued \$46.2 million in standby letters of credit as of December 31, 2021 for insurance purposes. Issued letters of credit reduce our available credit under the 2018 Credit Agreement. As of December 31, 2021, we have approximately \$218.8 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility.

#### 4. Stock-Based Compensation Plans

We have three stock incentive plans under which a total of 5.1 million shares were able to be issued to key employees and directors through a grant of stock options, stock awards and/or performance stock units (“PSUs”). The Compensation/Incentive Committee (“CIC”) of the Board of Directors administers these plans.

We grant stock options, stock awards and PSUs to our officers, other key employees and directors to better align their long-term interests with those of our shareholders. We grant stock options at an exercise price equal to the market price of our stock on the date of grant. Options vest ratably annually over a three year period. Those granted after 2014 have a contractual life of 5 years; those granted prior to 2014 have a contractual life of 10 years. Unrestricted stock awards generally are granted to our non-employee directors annually at the time of our annual meeting. PSUs are contingent upon achievement of multi-year earnings per share (“EPS”) targets or total shareholder return (“TSR”) targets. Upon achievement of targets, PSUs are converted to unrestricted shares of stock.

We recognize the cost of stock options, stock awards and PSUs on a straight-line basis over the service life of the award, generally the vesting period. We include the cost of all stock-based compensation in selling, general and administrative expense.

In May 2021, the CIC granted 2,430 unrestricted shares of stock to the Company’s outside directors.

#### PERFORMANCE AWARDS

The CIC determines a targeted number of PSUs to be granted to each participant. A participant can ultimately receive up to 200% of the targeted PSUs based upon exceeding the respective EPS and TSR target.

In February 2019, 2020 and 2021, the CIC granted PSUs contingent upon the achievement of certain TSR targets as compared to the TSR of a group of peer companies for the three year measurement period, at which date the awards may vest. We utilize a Monte Carlo simulation approach in a risk-neutral framework with inputs including historical volatility and the risk-free rate of interest to value these TSR awards. We amortize the total estimated cost over the service period of the award.

In February 2019, 2020 and 2021, the CIC granted PSUs contingent on the achievement of certain EPS targets over the three year measurement period. At the end of each reporting period, we estimate the number of shares of stock we believe will ultimately vest and record that expense over the service period of the award.

Comparative data for the PSUs include:

	<u>2021 Awards</u>	<u>2020 Awards</u>	<u>2019 Awards</u>
<b>TSR Awards</b>			
Shares of stock granted - target	6,277	5,156	7,029
Per-share fair value	\$ 599.04	\$ 643.44	\$ 434.51
Volatility	30.2%	21.4%	21.4%
Risk-free interest rate	0.2%	1.3%	2.45%
<b>EPS Awards</b>			
Shares of stock granted - target	6,277	5,156	7,029
Per-share fair value	\$ 491.34	\$ 487.90	\$ 322.40
<b>Common Assumptions</b>			
Service period (years)	2.9	2.9	2.9
Three-year measurement period ends December 31,	2023	2022	2021

The following table summarizes total stock option, stock award and PSU activity during 2021:

	<u>Stock Options</u>			<u>Stock Awards</u>		<u>Performance Units (PSUs)</u>		
	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Remaining Contractual Life (Years)</u>	<u>Aggregate Intrinsic Value (thousands)</u>	<u>Number of Awards</u>	<u>Weighted Average Grant-Date Per-Share Fair Value</u>	<u>Number of Target Units</u>	<u>Weighted Average Grant-Date Price</u>
Outstanding at January 1, 2021	1,070,071	\$ 341.99			-	-	38,196	\$ 396.93
Granted	326,806	445.35			2,430	482.66	24,615	419.79
Exercised/Vested	(226,268)	228.74			(2,430)	482.66	(26,521)	294.43
Canceled/ Forfeited	(16,572)	411.46			-	-	(456)	491.77
Outstanding at December 31, 2021	<u>1,154,037</u>	\$ 392.46	3.4	\$ 160,200	<u>-</u>	<u>-</u>	<u>35,834</u>	\$ 487.29
Vested and expected to vest at December 31, 2021	1,154,037	\$ 392.46	3.4	\$ 160,200	-	*\$ -	55,984	*\$ 463.76
Exercisable at December 31, 2021	545,359	329.13	2.5	110,246	n.a.	n.a.	n.a.	n.a.

\* Amount includes 23,196 share units which vested and were converted to shares of stock and distributed in the first quarter of 2022.

We estimate the fair value of stock options using the Black-Scholes valuation model. We determine expected term, volatility, and dividend yield and forfeiture rate based on our historical experience. We believe that historical experience is the best indicator of these factors.

Comparative data for stock options, stock awards and PSUs include (in thousands, except per-share amounts):

	<u>Years Ended December 31,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Total compensation expense of stock-based compensation plans charged against income	\$ 31,420	\$ 26,802	\$ 21,338
Total income tax benefit recognized in income for stock based compensation expense charged against income	7,918	6,904	5,373
Total intrinsic value of stock options exercised	62,038	125,448	106,793
Total intrinsic value of stock awards vested during the period	1,173	1,171	767
Per-share weighted average grant-date fair value of stock awards granted	482.66	466.43	331.69

The assumptions we used to value stock option grants are as follows:

	2021	2020	2019
Stock price on date of issuance	\$ 445.35	\$ 471.74	\$ 413.19
Grant date fair value per option	\$ 96.91	\$ 97.56	\$ 78.06
Number of options granted	326,806	298,670	287,010
Expected term (years)	3.5	3.5	4.0
Risk free rate of return	0.87%	0.24%	1.65%
Volatility	28.81%	28.41%	21.25%
Dividend yield	0.3%	0.3%	0.3%
Forfeiture rate	-	-	-

Other data for stock options, stock awards and PSUs for 2021 include (dollar amounts in thousands):

	Stock Options	Stock Awards	PSUs
Total unrecognized compensation at the end of the year	\$ 52,790	\$ -	\$ 8,579
Weighted average period over which unrecognized compensation to be recognized (years)	2.3	-	1.7
Actual income tax benefit realized	\$ 14,579	\$ 276	\$ 2,746
Aggregate intrinsic value vested and expected to vest	\$ 160,200	\$ -	\$ 29,744

#### EMPLOYEE STOCK PURCHASE PLAN ("ESPP")

The ESPP allows eligible participants to purchase shares of stock through payroll deductions at current market value. We pay administrative and broker fees associated with the ESPP. Shares of stock purchased for the ESPP are purchased on the open market and credited directly to participants' accounts. In accordance with the FASB's guidance, the ESPP is non-compensatory.

#### 5. Segments and Nature of the Business

Our segments include the VITAS segment and the Roto-Rooter segment. Relative contributions of each segment to service revenues and sales were 59% and 41% in 2021, 64% and 36% in 2020 and 66% and 34% in 2019. The vast majority of our service revenues and sales from continuing operations are generated from business within the United States. Service revenues and sales by business segment are shown in Note 2.

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

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.

Chemed Corporation and Subsidiary Companies

Segment data are set forth below (in thousands):

	For the Years Ended December 31,		
	2021	2020	2019
<b><u>After-tax Segment Earnings/(Loss)</u></b>			
VITAS	\$ 162,431	\$ 238,782	\$ 155,822
Roto-Rooter	166,333	120,394	103,710
Total	328,764	359,176	259,532
Corporate	(60,214)	(39,710)	(39,609)
Net income	\$ 268,550	\$ 319,466	\$ 219,923
<b><u>Interest Income</u></b>			
VITAS	\$ 18,378	\$ 20,565	\$ 18,515
Roto-Rooter	7,304	6,332	8,285
Total	25,682	26,897	26,800
Corporate	-	13	-
Intercompany eliminations	(25,305)	(26,153)	(26,287)
Total interest income	\$ 377	\$ 757	\$ 513
<b><u>Interest Expense</u></b>			
VITAS	\$ 160	\$ 166	\$ 169
Roto-Rooter	595	340	345
Total	755	506	514
Corporate	1,113	1,849	4,021
Total interest expense	\$ 1,868	\$ 2,355	\$ 4,535
<b><u>Income Tax Provision</u></b>			
VITAS	\$ 52,426	\$ 76,473	\$ 48,711
Roto-Rooter	51,420	37,038	30,276
Total	103,846	113,511	78,987
Corporate	(22,082)	(36,987)	(37,301)
Total income tax provision	\$ 81,764	\$ 76,524	\$ 41,686
<b><u>Identifiable Assets</u></b>			
VITAS	\$ 693,490	\$ 672,246	\$ 663,455
Roto-Rooter	513,191	499,101	507,480
Total	1,206,681	1,171,347	1,170,935
Corporate	136,042	263,564	97,382
Total identifiable assets	\$ 1,342,723	\$ 1,434,911	\$ 1,268,317
<b><u>Additions to Long-Lived Assets</u></b>			
VITAS	\$ 28,583	\$ 28,865	\$ 25,530
Roto-Rooter	30,249	27,682	162,494
Total	58,832	56,547	188,024
Corporate	24	5,246	1,000
Total additions to long-lived assets	\$ 58,856	\$ 61,793	\$ 189,024
<b><u>Depreciation and Amortization</u></b>			
VITAS	\$ 23,185	\$ 22,239	\$ 20,055
Roto-Rooter	35,785	34,208	24,994
Total	58,970	56,447	45,049
Corporate	81	136	156
Total depreciation and amortization	\$ 59,051	\$ 56,583	\$ 45,205

## 6. Intangible Assets

Amortization of definite-lived intangible assets for the years ended December 31, 2021, 2020, and 2019, was \$10.0 million, \$10.0 million and \$4.3 million, respectively. The following is a schedule by year of projected amortization expense for definite-lived intangible assets (in thousands):

2022	\$	10,017
2023		9,963
2024		9,916
2025		9,902
2026		9,557
Thereafter		2,147

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

	Gross Asset	Accumulated Amortization	Net Book Value
<b>December 31, 2021</b>			
Referral networks	\$ 21,850	\$ (21,365)	\$ 485
Covenants not to compete	10,076	(9,783)	293
Customer lists	4,747	(1,792)	2,955
Reacquired franchise rights	72,477	(24,708)	47,769
Subtotal - definite-lived intangibles	109,150	(57,648)	51,502
VITAS trade name	51,300	-	51,300
Roto-Rooter trade name	150	-	150
Operating licenses	5,144	-	5,144
Total	<u>\$ 165,744</u>	<u>\$ (57,648)</u>	<u>\$ 108,096</u>
<b>December 31, 2020</b>			
Referral networks	\$ 21,850	\$ (21,294)	\$ 556
Covenants not to compete	10,076	(9,632)	444
Customer lists	4,746	(1,577)	3,169
Reacquired franchise rights	72,478	(15,104)	57,374
Subtotal - definite-lived intangibles	109,150	(47,607)	61,543
VITAS trade name	51,300	-	51,300
Roto-Rooter trade name	150	-	150
Operating licenses	5,092	-	5,092
Total	<u>\$ 165,692</u>	<u>\$ (47,607)</u>	<u>\$ 118,085</u>

## 7. Acquisitions

No acquisitions were completed during the year ended December 31, 2021.

On June 1, 2020, we completed the acquisition of a Roto-Rooter franchise and the related assets in Bloomington, IN for \$2.2 million in cash.

On August 2, 2019, we entered into an Asset Purchase Agreement (the "Agreement") to purchase substantially all of the assets of HSW RR, Inc., a Delaware corporation ("HSW") and certain related assets of its affiliates, for \$120.0 million, subject to a working capital adjustment that resulted in an additional \$1.4 million payment to HSW. HSW owned and operated fourteen Roto-Rooter franchises mainly in the southwestern section of the United States, including Los Angeles, Dallas and Phoenix. Included in the assets purchased were the assets of Western Drain Supply, Inc., a plumbing supply company. The purchase was made using a combination of cash on-hand and borrowings under Chemed's existing \$450 million revolving credit facility. On September 16, 2019, we completed the acquisition.

On July 1, 2019, we completed the acquisition of a Roto-Rooter franchise and the related assets in Oakland, CA for \$18.0 million in cash.

**Chemed Corporation and Subsidiary Companies**

The acquisitions were made as a continuation of Roto-Rooter's strategy to re-acquire franchises in large markets in the United States. The allocation for the two acquisitions completed in 2019 is as follows (in thousands):

	<b>HSW</b>	<b>Oakland</b>	<b>Total</b>
Goodwill	\$ 56,191	\$ 10,535	\$ 66,726
Reacquired franchise rights	52,980	6,190	59,170
Property, plant, and equipment	5,998	675	6,673
Working capital	3,760	22	3,782
Customer relationships	2,220	500	2,720
Non-compete agreements	140	100	240
Other assets and liabilities - net	128	23	151
	<u>\$ 121,417</u>	<u>\$ 18,045</u>	<u>\$ 139,462</u>

Included above is \$1.4 million related to the HSW acquisition excess working capital. The amount was paid in 2020.

Reacquired franchise rights, included in identifiable intangibles on the Consolidated Balance Sheets, are amortized over the period remaining in each individual franchise agreement. The average amortization period for reacquired franchise rights for the acquisitions made in 2019 is 7.4 years.

Revenue and net income for the two acquisitions completed in 2019 for the period we owned them in 2019 are as follows (in thousands):

	<b>HSW</b>	<b>Oakland</b>	<b>Total</b>
Service revenues and sales	\$ 20,141	\$ 5,150	\$ 25,291
Net income/(loss)	(2,777)	231	(2,546)

Included in 2019 net income for the two acquisitions is \$3.4 million of one-time acquisition expense.

The franchise fee revenue, the valuation of reacquired franchise rights and amortization for the acquired franchises are as follows:

	<b>2018 Franchise Revenue</b>	<b>Valuation of Reacquired Franchise Rights</b>	<b>Annualized Amortization of Reacquired Franchise Rights</b>
HSW	\$ 1,782	\$ 52,980	\$ 7,258
Oakland	95	6,190	825
Subtotal	<u>1,877</u>	<u>\$ 59,170</u>	<u>\$ 8,083</u>
All other franchise territories	4,505		
	<u>\$ 6,382</u>		

As a result of the acquisitions, 2018 is the last full-year of franchise revenue received from HSW and Oakland. Total franchise revenue in 2019 was \$6.1 million.

Customer relationships, included in identifiable intangibles on the Consolidated Balance Sheets, are amortized over an average amortization period of 20.4 years. Non-compete agreements are amortized over the period of the agreement. The average amortization period for non-compete agreements for the transactions made in 2019 is 4.0 years.

Goodwill is assessed for impairment on a yearly basis as of October 1. The primary factor that contributed to the purchase price resulting in the recognition of goodwill is operational efficiencies expected as a result of consolidating stand-alone franchises and Roto-Rooter's network of nationwide branches. All goodwill recognized is deductible for tax purposes.

## 8. Discontinued Operations

At December 31, 2021 and 2020, the accrual for our estimated liability for potential environmental cleanup and related costs arising from the 1991 sale of DuBois amounted to \$1.7 million. Of the 2021 balance, \$826,000 is included in other current liabilities and \$901,000 is included in other liabilities (long-term). The estimated amounts and timing of payments of these liabilities follows (in thousands):

2022	\$	826
2023		300
Thereafter		601
	<u>\$</u>	<u>1,727</u>

We are contingently liable for additional DuBois-related environmental cleanup and related costs up to a maximum of \$14.9 million. On the basis of a continuing evaluation of the potential liability, we believe it is not probable this additional liability will be paid. Accordingly, no provision for this contingent liability has been recorded. The potential liability is not insured, and the recorded liability does not assume the recovery of insurance proceeds. Also, the environmental liability has not been discounted because it is not possible to reliably project the timing of payments. We believe that any adjustments to our recorded liability will not materially adversely affect our financial position, results of operations or cash flows.

## 9. Cash Overdrafts, Cash Equivalents, and Supplemental Cash Flow Disclosure

Included in the accompanying Consolidated Balance Sheets are \$1.9 million, \$3.9 million, and \$1.8 million of capitalized property and equipment which were not paid for as of December 31, 2021, 2020, and 2019, respectively. These amounts have been excluded from capital expenditures in the accompanying Consolidated Statements of Cash Flows. There are no material non-cash amounts included in interest expense for any period presented.

Included in accounts payable are cash overdrafts of \$11.9 million as of December 31, 2021. There are no cash overdrafts included in accounts payable as of December 31, 2020.

From time to time throughout the year, we invest excess cash in money market funds directly with major commercial banks. We closely monitor the creditworthiness of the institutions with which we invest our overnight funds. The amount invested was less than \$100,000 for each balance sheet date presented.

## 10. Other Income -- Net

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

	For the Years Ended December 31,		
	2021	2020	2019
Market value gains related to deferred compensation trusts	\$ 8,310	\$ 7,933	\$ 8,254
Interest income	377	757	513
Other income/(expense)--net	457	(25)	(3)
Total other income	<u>\$ 9,144</u>	<u>\$ 8,665</u>	<u>\$ 8,764</u>

The market value gain relates to gains on the assets in the deferred compensation trust. There is an offsetting expense in selling, general and administrative expense to reflect the corresponding increase in the liability.

## 11. Income Taxes

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

	For the Years Ended December 31,		
	2021	2020	2019
Current			
U.S. federal	\$ 64,620	\$ 58,602	\$ 36,779
U.S. state and local	14,233	15,950	7,078
Foreign	511	539	600
Deferred			
U.S. federal, state and local	2,358	1,456	(2,773)
Foreign	42	(23)	2
Total	<u>\$ 81,764</u>	<u>\$ 76,524</u>	<u>\$ 41,686</u>

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

	December 31,	
	2021	2020
Accrued liabilities	\$ 42,840	\$ 42,151
Lease liabilities	35,936	35,888
Implicit price concessions	7,744	7,031
Stock compensation expense	6,976	4,047
State net operating loss carryforwards	1,920	2,030
Other	920	888
Deferred income tax assets	<u>96,336</u>	<u>92,035</u>
Amortization of intangible assets	(41,925)	(40,619)
Accelerated tax depreciation	(35,416)	(31,686)
Right of use lease assets	(32,489)	(32,788)
Currents assets	(3,858)	(3,921)
Market valuation of investments	(3,189)	(2,382)
State income taxes	(2,504)	(1,161)
Other	(138)	(142)
Deferred income tax liabilities	<u>(119,519)</u>	<u>(112,699)</u>
Net deferred income tax liabilities	<u>\$ (23,183)</u>	<u>\$ (20,664)</u>

At December 31, 2021 and 2020, state net operating loss carryforwards were \$43.9 million and \$37.3 million, respectively. These net operating losses will expire, in varying amounts, between 2026 and 2041. 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.

A reconciliation of the beginning and ending of year amount of our unrecognized tax benefit is as follows (in thousands):

	2021	2020	2019
Balance at January 1,	\$ 1,304	\$ 1,323	\$ 1,348
Unrecognized tax benefits due to positions taken in current year	333	200	234
Decrease due to expiration of statute of limitations	(258)	(219)	(259)
Balance at December 31,	<u>\$ 1,379</u>	<u>\$ 1,304</u>	<u>\$ 1,323</u>

We file tax returns in the U.S. federal jurisdiction and various states. The years ended December 31, 2018 and forward remain open for review for federal income tax purposes. The earliest open year relating to any of our major state jurisdictions is the fiscal year ended December 31, 2016. During the next twelve months, we do not anticipate a material net change in unrecognized tax benefits.

We classify interest related to our accrual for uncertain tax positions in separate interest accounts. As of December 31, 2021, and 2020, we have approximately \$131,000 and \$163,000, respectively, accrued in interest payable related to uncertain tax positions.

These accruals are included in other current liabilities in the accompanying consolidated balance sheet. Net interest expense related to uncertain tax positions included in interest expense in the accompanying consolidated statement of income is not material.

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,		
	2021	2020	2019
Income tax provision calculated using the statutory rate of 21%	\$ 73,566	\$ 83,158	\$ 54,938
Excess stock compensation tax benefits	(9,884)	(26,089)	(24,177)
State and local income taxes, less federal income tax effect	10,025	13,855	7,880
Nondeductible expenses	7,443	5,377	3,048
Other--net	614	223	(3)
Income tax provision	<u>\$ 81,764</u>	<u>\$ 76,524</u>	<u>\$ 41,686</u>
Effective tax rate	<u>23.3 %</u>	<u>19.3 %</u>	<u>15.9 %</u>

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

2021	\$	99,430
2020		61,517
2019		44,063

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 these businesses rather than to affect a tax-free liquidation, additional taxes amounting to approximately \$8.4 million would be incurred based on current income tax rates.

## 12. Properties and Equipment

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

	December 31,	
	2021	2020
Land	\$ 11,348	\$ 9,385
Buildings and building improvements	122,762	117,419
Transportation equipment	73,322	68,379
Machinery and equipment	143,335	129,835
Computer software	64,064	62,138
Furniture and fixtures	78,979	78,507
Projects under development	17,781	15,537
Total properties and equipment	<u>511,591</u>	<u>481,200</u>
Less accumulated depreciation	<u>(317,911)</u>	<u>(293,380)</u>
Net properties and equipment	<u>\$ 193,680</u>	<u>\$ 187,820</u>

The net book value of computer software at December 31, 2021 and 2020, was \$9.0 million and \$8.9 million, respectively. Depreciation expense for computer software was \$5.8 million, \$5.5 million and \$4.6 million for the years ended December 31, 2021, 2020 and 2019, respectively.

## 13. Leases

Chemed and each of its operating subsidiaries are service companies. As such, real estate leases comprise the largest lease obligation (and conversely, right of use asset) in our lease portfolio. VITAS has leased office space, as well as space for IPUs and/or contract beds within hospitals. Roto-Rooter has leased office space.

Chemed Corporation and Subsidiary Companies

The components of balance sheet information related to leases were as follows:

	December 31,	
	2021	2020
<b>Assets</b>		
Operating lease assets	\$ 125,048	\$ 123,448
<b>Liabilities</b>		
Current operating leases	37,913	36,200
Noncurrent operating leases	100,629	99,210
Total operating lease liabilities	<u>\$ 138,542</u>	<u>\$ 135,410</u>

The components of lease expense were as follows:

	December 31,	
	2021	2020
<b>Lease Expense (a)</b>		
Operating lease expense	\$ 61,474	\$ 60,195
Sublease income	(181)	(83)
Net lease expense	<u>\$ 61,293</u>	<u>\$ 60,112</u>

- (a) Includes short-term leases and variable lease costs, which are immaterial. Included in both cost of services provided and goods sold and selling, general and administrative expenses.

The components of cash flow information related to leases were as follows:

	December 31,	
	2021	2020
<b>Cash paid for amounts included in the measurement of lease liabilities</b>		
Operating cash flows from leases	\$ 50,990	\$ 49,932
<b>Leased assets obtained in exchange for new operating lease liabilities</b>		
	\$ 52,878	\$ 58,802

**Weighted Average Remaining Lease Term**

Operating leases	4.61	years
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**Weighted Average Discount Rate**

Operating leases	2.41%
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**Maturity of Operating Lease Liabilities (in thousands)**

2022	\$	42,726
2023		33,700
2024		25,879
2025		18,596
2026		11,729
Thereafter		13,950
Total lease payments	\$	146,580
Less: interest		(8,014)
Less: lease obligations signed but not yet commenced		(24)
Total liability recognized on the balance sheet	<u>\$</u>	<u>138,542</u>

For leases commencing prior to 2019, minimum rental payments exclude payments to landlords for real estate taxes and common area maintenance. Operating lease payments include \$2.0 million related to extended lease terms that are reasonably certain of being exercised and exclude \$24,000 of lease payments for leases signed but not yet commenced.

#### 14. Retirement Plans

Retirement obligations under various plans cover substantially all full-time employees who meet age and/or service eligibility requirements. All plans providing retirement benefits to our employees are defined contribution plans. Expenses for our retirement and profit-sharing plans, excess benefit plans and other similar plans are as follows (in thousands):

		For the Years Ended December 31,			
2021		2020		2019	
\$	27,332	\$	27,044	\$	25,529

These expenses include the impact of market gains and losses on assets held in deferred compensation plans.

Trust assets invested in shares of our stock are included in treasury stock, and the corresponding liability is included in a separate component of stockholders' equity. At December 31, 2021, these trusts held 65,663 shares at historical average cost of \$2.2 million (2020 – 74,262 shares or \$2.3 million).

We have excess benefit plans for key employees whose participation in the qualified plans is limited by U.S. Employee Retirement Income Security Act requirements. Benefits are determined based on theoretical participation in the qualified plans. Benefits are only invested in mutual funds, and participants are not permitted to diversify accumulated benefits in shares of our capital stock.

#### 15. Earnings Per Share

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

For the Years Ended December 31,	Net Income		
	Net Income	Shares	Earnings per Share
<b>2021</b>			
Earnings	\$ 268,550	15,671	\$ 17.14
Dilutive stock options	-	221	
Nonvested stock awards	-	46	
<b>Diluted earnings</b>	<b>\$ 268,550</b>	<b>15,938</b>	<b>\$ 16.85</b>
<b>2020</b>			
Earnings	\$ 319,466	15,955	\$ 20.02
Dilutive stock options	-	368	
Nonvested stock awards	-	75	
<b>Diluted earnings</b>	<b>\$ 319,466</b>	<b>16,398</b>	<b>\$ 19.48</b>
<b>2019</b>			
Earnings	\$ 219,923	15,969	\$ 13.77
Dilutive stock options	-	480	
Nonvested stock awards	-	78	
<b>Diluted earnings</b>	<b>\$ 219,923</b>	<b>16,527</b>	<b>\$ 13.31</b>

During 2021, 617,000 stock options were excluded from the computation of diluted earnings per share as their exercise prices were greater than the average market price during most of the year. During 2020, 566,000 stock options were also excluded. During 2019, 287,000 stock options were also excluded.

#### 16. Financial Instruments

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

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of December 31, 2021 (in thousands):

	Carrying Value	Fair Value Measure		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments of deferred compensation plans held in trust	\$ 98,884	\$ 98,884	\$ -	\$ -
Long-term debt	185,000	-	185,000	-

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of December 31, 2020 (in thousands):

	Carrying Value	Fair Value Measure		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments of deferred compensation plans held in trust	\$ 88,811	\$ 88,811	\$ -	\$ -

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. As further described in Note 3, our outstanding long-term debt and current portion of long-term debt have floating interest rates that are reset at short-term intervals, generally 30 or 60 days. The interest rate we pay also includes an additional amount based on our current leverage ratio. As such, we believe our borrowings reflect significant nonperformance risks, mainly credit risk. Based on these factors, we believe the fair value of our long-term debt and current portion of long-term debt approximate the carrying value.

## 17. Legal and Regulatory Matters

The VITAS segment of the Company’s business operates in a heavily-regulated industry. As a result, the Company is subjected to inquiries and investigations by various government agencies, which can result in penalties including repayment obligations, funding withholding, or debarment, as well as to lawsuits, including *qui tam* actions. The following sections describe the various ongoing material lawsuits and investigations of which the Company is currently aware. Other than as described below, it is not possible at this time for us to estimate either the timing or outcome of any of those matters, or whether any potential loss, or range of potential losses, is probable or reasonably estimable.

### ***Regulatory Matters and Litigation***

On October 30, 2017, the Company entered into a settlement agreement to resolve civil litigation under the False Claims Act brought by the United States Department of Justice (“DOJ”) on behalf of the OIG and various relators concerning VITAS, filed in the U.S. District Court of the Western District of Missouri. The Company denied any violation of law and agreed to settlement without admission of wrongdoing.

In connection with the settlement, VITAS and certain of its subsidiaries entered into a corporate integrity agreement (“CIA”) on October 30, 2017. The CIA formalizes various aspects of VITAS’ already existing Compliance Program and contains requirements designed to document compliance with federal healthcare program requirements. It has a term of five years during which it imposes monitoring, reporting, certification, oversight, screening and training obligations, certain of which had previously been implemented by VITAS. It also requires VITAS to engage an Independent Review Organization to perform audit and review functions and to prepare

reports regarding compliance with federal healthcare programs. In the event of breach of the CIA, VITAS could become liable for payment of stipulated penalties or could be excluded from participation in federal healthcare programs.

Alfred Lax (“Lax”), a former employee of Roto-Rooter Services Company (“RRSC”) filed a class action lawsuit in Santa Clara County Superior Court in November of 2018 alleging (1) failure to provide or compensate for required rest breaks; (2) failure to properly pay for all hours worked; (3) failure to provide accurate wage statements; (4) failure to reimburse for work-related expenses; and (5) unfair business practices. Lax stated these claims as a representative of a class defined as all service technicians employed by RRSC in California during the four years preceding the filing of the complaint. The lawsuit is, *Alfred Lax on behalf of himself and all others similarly situated v. Roto-Rooter Services Company, and Does 1 through 50 inclusive*; Santa Clara County Superior Court Case Number 18CV338652. The Company entered into a settlement agreement in August 2020 to resolve the allegations, for a settlement amount of \$2.6 million plus employment taxes. The settlement includes technicians in its Menlo Park and Bristol locations. The settlement was recorded in the third quarter of 2020. Final approval of the settlement was granted in the first quarter of 2021 and the settlement was paid.

On October 16, 2020, VITAS received a Civil Investigative Demand (“CID”) issued by the U.S. Department of Justice pursuant to the False Claims Act concerning allegations of the submission of false claims for hospice services for which reimbursement was sought from federal healthcare programs, including Medicare. The CID has requested information regarding 32 patients from our Florida operations. We are cooperating with the U.S. Department of Justice with respect to this investigation. The Company cannot predict when the investigation will be resolved or the outcome of the investigation.

VITAS is one of a group of hospice providers selected by the OIG’s Office of Audit Services (“OAS”) for inclusion in an audit of the provision of elevated level-of-care hospice services to a sample of patients. At the audit’s conclusion, we expect that the OAS will make certain recommendations to CMS, which will be published on the OIG website, and may include repayment of Medicare funds received for elevated care of certain patients in the sample as well as extrapolated amounts based upon the incidence of claims within the sample. These extrapolated amounts may appear material. Any claims pursued by CMS will proceed in accordance with the standard reconsideration and appeals process for claims that arise out of CMS audits. The Company cannot predict the eventual outcome, or reasonably estimate any potential loss, from any such claims at this time.

Please see Note 8 above relating to potential contingent environmental obligations.

Regardless of the outcome of any of the preceding matters, dealing with the various regulatory agencies and opposing parties can adversely affect us through defense costs, potential payments, withholding of governmental funding, diversion of management time, and related publicity. Although the Company intends to defend them vigorously, there can be no assurance that those suits will not have a material adverse effect on the Company.

## 18. Capital Stock Transactions

We repurchased the following capital stock:

	For the Years Ended December 31,		
	2021	2020	2019
Total cost of repurchased shares (in thousands):	\$ 576,483	\$ 175,594	\$ 92,631
Shares repurchased	1,195,529	384,252	269,009
Weighted average price per share	\$ 482.20	\$ 456.98	\$ 344.34

In May and November 2021, the Board of Directors authorized a total of \$600.0 million for additional stock repurchase under the February 2011 repurchase program. We currently have \$201.9 million of authorization remaining under this share purchase plan.

**19. Other Operating Expenses/(Income)**

	December 31,		
	2021	2020	2019
Loss on disposal of property and equipment	\$ 987	\$ 541	\$ 866
CARES Act grant income	-	(80,225)	-
Litigation settlements	-	4,589	6,000
Loss on sale of transportation equipment	-	-	2,266
Total other operating expenses/(income)	<u>\$ 987</u>	<u>\$ (75,095)</u>	<u>\$ 9,132</u>

See Note 1 for further discussion of the accounting for the CARES Act grant income.

**20. Recent Accounting Standards**

In November 2021, the FASB issued Accounting Standards Update “ASU No. 2021-10- Government Assistance”. The guidance provides increased transparency related to government assistance including (1) the types of assistance, (2) an entity’s accounting for the assistance and (3) the effect of the assistance on an entity’s financial statements. The guidance is effective for fiscal periods beginning after December 31, 2021. We adopted the guidance prospectively on January 1, 2022. There was no effect to our financial statements.

In March 2020, the FASB issued Accounting Standards Update “ASU No. 2020-04 - Reference Rate Reform”. The update provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another rate expected to be discontinued. The update is effective for all entities as of March 12, 2020 and will apply through December 31, 2022. The interest rate charged on borrowings from our existing revolver is based on LIBOR. The credit agreement includes provisions for modifying the interest rate in the instance that LIBOR is discontinued. As a result, no contract modifications will be required when LIBOR is discontinued.

**CHEMED CORPORATION AND SUBSIDIARY COMPANIES**  
**UNAUDITED CONSOLIDATING STATEMENTS OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**  
**(in thousands)(unaudited)**

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
<b>2021</b>				
Service revenues and sales	\$ 1,261,246	\$ 878,015	\$ -	\$ 2,139,261
Cost of services provided and goods sold	953,420	416,038	-	1,369,458
Selling, general and administrative expenses	87,585	215,036	64,106	366,727
Depreciation	23,114	25,816	81	49,011
Amortization	71	9,969	-	10,040
Other operating expenses	876	111	-	987
Total costs and expenses	<u>1,065,066</u>	<u>666,970</u>	<u>64,187</u>	<u>1,796,223</u>
Income/(loss) from operations	196,180	211,045	(64,187)	343,038
Interest expense	(160)	(595)	(1,113)	(1,868)
Intercompany interest income/(expense)	18,125	7,180	(25,305)	-
Other income—net	712	123	8,309	9,144
Income/(loss) before income taxes (a)	214,857	217,753	(82,296)	350,314
Income taxes	(52,426)	(51,420)	22,082	(81,764)
Net income/(loss) (a)	<u>\$ 162,431</u>	<u>\$ 166,333</u>	<u>\$ (60,214)</u>	<u>\$ 268,550</u>

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

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
<b>Pretax benefit/(cost):</b>				
Stock option expense	\$ -	\$ -	\$ (22,502)	\$ (22,502)
Direct costs related to Covid-19	(16,297)	(2,434)	(38)	(18,769)
Amortization of reacquired franchise agreements	-	(9,408)	-	(9,408)
Long-term incentive compensation	-	-	(9,167)	(9,167)
Facility relocation expenses	(1,855)	-	-	(1,855)
Litigation settlements	-	98	-	98
Other	-	-	(218)	(218)
Total	<u>\$ (18,152)</u>	<u>\$ (11,744)</u>	<u>\$ (31,925)</u>	<u>\$ (61,821)</u>

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
<b>After-tax benefit/(cost):</b>				
Stock option expense	\$ -	\$ -	\$ (18,879)	\$ (18,879)
Direct costs related to Covid-19	(12,157)	(1,789)	(29)	(13,975)
Excess tax benefits on stock compensation	-	-	9,884	9,884
Long-term incentive compensation	-	-	(8,094)	(8,094)
Amortization of reacquired franchise agreements	-	(6,915)	-	(6,915)
Facility relocation expenses	(1,384)	-	-	(1,384)
Litigation settlements	-	72	-	72
Other	-	-	(166)	(166)
Total	<u>\$ (13,541)</u>	<u>\$ (8,632)</u>	<u>\$ (17,284)</u>	<u>\$ (39,457)</u>

Chemed Corporation and Subsidiary Companies

CHEMED CORPORATION AND SUBSIDIARY COMPANIES  
UNAUDITED CONSOLIDATING STATEMENTS OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(in thousands)(unaudited)

2020	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Service revenues and sales	\$ 1,334,667	\$ 744,916	\$ -	\$ 2,079,583
Cost of services provided and goods sold	1,010,693	367,504	-	1,378,197
Selling, general and administrative expenses	85,445	188,268	56,505	330,218
Depreciation	22,168	24,292	136	46,596
Amortization	71	9,916	-	9,987
Other operating (income)/expenses	(78,590)	3,495	-	(75,095)
Total costs and expenses	1,039,787	593,475	56,641	1,689,903
Income/(loss) from operations	294,880	151,441	(56,641)	389,680
Interest expense	(166)	(340)	(1,849)	(2,355)
Intercompany interest income/(expense)	19,897	6,256	(26,153)	-
Other income—net	644	75	7,946	8,665
Income/(loss) before income taxes (a)	315,255	157,432	(76,697)	395,990
Income taxes	(76,473)	(37,038)	36,987	(76,524)
Net income/(loss) (a)	\$ 238,782	\$ 120,394	\$ (39,710)	\$ 319,466

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

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
CARES Act grant	\$ 80,225	\$ -	\$ -	\$ 80,225
Direct costs related to COVID-19	(35,441)	(3,819)	-	(39,260)
Stock option expense	-	-	(18,422)	(18,422)
Amortization of reacquired franchise agreements	-	(9,408)	-	(9,408)
Long-term incentive compensation	-	-	(8,937)	(8,937)
Litigation settlements	-	(3,639)	-	(3,639)
Medicare cap sequestration adjustment	(619)	-	-	(619)
Total	\$ 44,165	\$ (16,866)	\$ (27,359)	\$ (60)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				
CARES Act grant	\$ 59,848	\$ -	\$ -	\$ 59,848
Direct costs related to COVID-19	(26,430)	(2,808)	-	(29,238)
Stock option expense	-	-	(15,700)	(15,700)
Amortization of reacquired franchise agreements	-	(6,914)	-	(6,914)
Long-term incentive compensation	-	-	(7,895)	(7,895)
Litigation settlements	-	(2,675)	-	(2,675)
Medicare cap sequestration adjustment	(462)	-	-	(462)
Excess tax benefits on stock compensation	-	-	26,089	26,089
Total	\$ 32,956	\$ (12,397)	\$ 2,494	\$ 23,053

Chemed Corporation and Subsidiary Companies

CHEMED CORPORATION AND SUBSIDIARY COMPANIES  
 UNAUDITED CONSOLIDATING STATEMENTS OF INCOME  
 FOR THE YEAR ENDED DECEMBER 31, 2019  
 (in thousands)(unaudited)

2019	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Service revenues and sales	\$ 1,281,184	\$ 657,371	\$ -	\$ 1,938,555
Cost of services provided and goods sold	982,056	339,070	-	1,321,126
Selling, general and administrative expenses	86,345	166,934	52,433	305,712
Depreciation	19,984	20,730	156	40,870
Amortization	71	4,264	-	4,335
Other operating expenses	6,546	320	2,266	9,132
Total costs and expenses	<u>1,095,002</u>	<u>531,318</u>	<u>54,855</u>	<u>1,681,175</u>
Income/(loss) from operations	186,182	126,053	(54,855)	257,380
Interest expense	(169)	(345)	(4,021)	(4,535)
Intercompany interest income/(expense)	18,135	8,152	(26,287)	-
Other income—net	385	126	8,253	8,764
Income/(loss) before income taxes (a)	204,533	133,986	(76,910)	261,609
Income taxes	(48,711)	(30,276)	37,301	(41,686)
Net income/(loss) (a)	<u>\$ 155,822</u>	<u>\$ 103,710</u>	<u>\$ (39,609)</u>	<u>\$ 219,923</u>

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

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	-	-	(14,831)	(14,831)
Long-term incentive compensation	-	-	(7,630)	(7,630)
Litigation settlements	(6,000)	-	-	(6,000)
Acquisition expenses	-	(4,664)	(170)	(4,834)
Medicare cap sequestration adjustment	(3,982)	-	-	(3,982)
Amortization of reacquired franchise agreements	-	(3,964)	-	(3,964)
Loss on sale of transportation equipment	-	-	(2,266)	(2,266)
Non cash ASC 842 expenses	(656)	(55)	163	(548)
Total	<u>\$ (10,638)</u>	<u>\$ (8,683)</u>	<u>\$ (24,734)</u>	<u>\$ (44,055)</u>

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				
Excess tax benefits on stock compensation	\$ -	\$ -	\$ 24,177	\$ 24,177
Stock option expense	-	-	(12,237)	(12,237)
Long-term incentive compensation	-	-	(6,440)	(6,440)
Litigation settlements	(4,476)	-	-	(4,476)
Acquisition expenses	-	(3,429)	(128)	(3,557)
Medicare cap sequestration adjustment	(2,965)	-	-	(2,965)
Amortization of reacquired franchise agreements	-	(2,913)	-	(2,913)
Loss on sale of transportation equipment	-	-	(1,733)	(1,733)
Non cash ASC 842 expenses	(490)	(40)	124	(406)
Total	<u>\$ (7,931)</u>	<u>\$ (6,382)</u>	<u>\$ 3,763</u>	<u>\$ (10,550)</u>

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, drain cleaning, water restoration and other related 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 approximately 90% of the U.S. population.

The following is a summary of the key operating results for the years ended December 31, 2021, 2020 and 2019 (in thousands except percentages and per share amounts):

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Consolidated service revenues and sales	\$ 2,139,261	\$ 2,079,583	\$ 1,938,555
Consolidated net income	\$ 268,550	\$ 319,466	\$ 219,923
Diluted EPS	\$ 16.85	\$ 19.48	\$ 13.31
Adjusted net income	\$ 308,007	\$ 296,413	\$ 230,473
Adjusted diluted EPS	\$ 19.33	\$ 18.08	\$ 13.95
Adjusted EBITDA	\$ 461,414	\$ 444,823	\$ 350,927
Adjusted EBITDA as a % of revenue	21.6 %	21.4 %	18.1 %

Adjusted net income, adjusted diluted EPS, earnings before interest, taxes and depreciation and amortization (“EBITDA”) and Adjusted EBITDA are not measures derived in accordance with GAAP. We use Adjusted EPS as a measure of earnings for certain long-term incentive awards. We use adjusted EBITDA to determine compliance with certain debt covenants. We provide non-GAAP measures to help readers evaluate our operating results and compare our operating performance with that of similar companies that have different capital structures. Our non-GAAP measures should not be considered in isolation or as a substitute for comparable measures presented in accordance with GAAP. Reconciliations of our non-GAAP measures are presented in tables following the Critical Accounting Policies section.

**2021 versus 2020**

The increase in consolidated service revenues and sales from 2020 to 2021 was a result of a 17.9% increase at Roto-Rooter offset by a 5.5% decrease at VITAS. The increase in service revenues at Roto-Rooter was driven by an increase in all major service lines. The decrease in service revenues at VITAS is comprised primarily of a 5.7% decrease in days-of-care, a 1.7% decrease in acuity mix shift offset by a 1.7% increase in geographically weighted reimbursement rates. The combination of a lower Medicare cap revenue reduction and other contra revenue changes offset a portion of the revenue decline by approximately 20 basis points.

We are closely monitoring the impact of the pandemic on all aspects of our business including impacts to employees, customers, patients, suppliers and vendors. The length and severity of the pandemic, coupled with related governmental actions including relief acts and actions relating to our workforce at federal, state and local levels, and underlying economic disruption will determine the ultimate short-term and long-term impact to our business operations and financial results. To date, we have seen shifts in demand and mix of services, changes in referral patterns, an increase in usage and reliance on our technology infrastructure, difficulties hiring and retaining workforce and vaccine mandates imposed on our frontline healthcare workers, among other changes. We are unable to predict the myriad of possible issues that could arise or the ultimate effect to our businesses as a result of the unknown short, medium and long-term impacts that the pandemic will have on the United States economy and society as a whole.

Chemed and its subsidiaries had deferred \$36.4 million of certain employer payroll taxes as permitted by the CARES Act during 2020. \$18.2 million was paid during 2021 and the remaining \$18.2 million is in other current liabilities.

During the period from May 1, 2020 through March 31, 2022, the 2% Medicare sequestration reimbursement cut was suspended. For the year ended December 31, 2021, approximately \$23.9 million was recognized as revenue due to the suspension of sequestration. Sequestration will be phased back into place at 1% from April 1, 2022 to June 30, 2022 and the full 2% thereafter.

**2020 versus 2019**

The increase in consolidated service revenues and sales from 2019 to 2020 was a result of a 13.3% increase at Roto-Rooter and a 4.2% increase at VITAS. The increase in service revenues at Roto-Rooter was driven by an increase in all major service lines. The increase in service revenues at VITAS is comprised primarily of a 4.5% geographically weighted average Medicare reimbursement rate increase, a 1.0% increase in days of care, \$6.7 million in Medicare cap revenue reduction (compared to \$12.4 million for 2019), and acuity mix shift.

The current COVID-19 pandemic had a material impact on our results of operations, cash flow and financial position for 2020.

On March 27, 2020, the CARES Act was passed. It is intended to provide economic relief to individuals and businesses affected by the coronavirus pandemic. It also contains provisions related to healthcare providers' operations and the issues caused by the coronavirus pandemic. The following are significant economic impacts for Chemed and its subsidiaries as a result of specific provisions of the CARES Act:

- A portion of the CARES Act provides \$100 billion from the Public Health and Social Services Emergency Fund ("Relief Fund") to healthcare providers on the front lines of the coronavirus response. Of this distribution, \$30 billion was designated to be automatically distributed to facilities and healthcare providers based upon their 2019 Medicare fee-for-service revenue.
- On April 10, 2020 VITAS received \$80.2 million from the Relief Fund based upon VITAS's 2019 Medicare fee-for-service revenue. The main condition that is attached to the grant is that the money will be used "only for health care related expenses or lost revenues that are attributable to coronavirus". HHS guidance does not specifically designate what healthcare expenses are related to COVID-19. The guidance to date is general and broad but does provide some examples such as equipment and supplies, workforce training, reporting COVID-19 test results, securing separate facilities for COVID-19 patients and acquiring additional resources to expand or preserve care delivery. VITAS has cared for approximately 5,700 COVID positive patients through December 31, 2020.
- The additional conditions to the Relief Fund payment are specific in nature, such as the money cannot be used for gun control advocacy purposes, abortions, embryo research, etc. The Company is in compliance, and intends to maintain compliance, with these specific conditions. Based on this analysis, management believes that there is reasonable assurance that VITAS will comply with the conditions.
- Chemed and its subsidiaries have deferred \$36.4 million of certain employer payroll taxes as permitted by the CARES Act. \$18.2 million is classified as a short-term liability and \$18.2 million is classified as long-term liability.
- During the period from May 1, 2020 through December 31, 2020, the 2% Medicare sequestration reimbursement cut is suspended. For the year ended December 31, 2020 approximately \$16.8 million was recognized as revenue due to the suspension of sequestration.

All CARES Act funds received were fully recognized during the year ended December 31, 2020. The Company analogized to International Accounting Standard 20 – *Accounting for Government Grants and Disclosures* ("IAS 20") to account for the CARES Act grant received. Under IAS 20, once it is reasonably assured that the entity will comply with the conditions of the grant, the grant money should be recognized on a systematic basis over the periods in which the entity recognizes the related expenses or lost revenue. The portal to report utilization of CARES Act funds opened on July 1, 2021. We completed our reporting by the September 30, 2021 deadline.

The components of the amount recognized are as follows, (in thousands):

Lost revenue	\$	44,784
Incremental PTO		21,425
Hard costs		14,016
Other operating income	\$	<u>80,225</u>

Hard costs are primarily expenses paid to outside vendors for personal protection equipment, COVID testing for front line workers, and deep cleaning of in-patient facilities. In April, VITAS provided an extra two weeks of paid time off ("PTO") to all frontline workers.

During the year ended December 31, 2020, VITAS recognized \$44.8 million for estimated lost revenue as a result of the pandemic. The December 27, 2020 COVID-19 relief bill gave providers multiple options to calculate lost revenue including budget to

actual comparisons or other systematic methods of calculation. We calculated lost revenue using the budget to actual method. Our 2020 budget was compiled, reviewed and approved prior to the start of the pandemic. Lost revenues for 2020 based on our calculation was \$61.4 million, however only \$44.8 million was recognized for use under the grant received.

All CARES Act funds received have been fully recognized as of December 31, 2020. However, the rules concerning utilization of the funds continue to evolve and we will continue to comply with those applicable to us. The portal to report utilization of CARES Act funds opened on July 1, 2021. We completed our reporting by the September 30, 2021 deadline.

### **Impact of Current Market Conditions**

Historically, Chemed earnings guidance has been developed using previous years' key operating metrics which are then modeled and projected out for the calendar year. Critical within these projections is the understanding of traditional patterned correlations among key operating metrics. This modeling exercise also takes into consideration anticipated industry and macro-economic issues outside of management's control but are somewhat predictable in terms of timing and impact on our business segments' operating results.

The COVID-19 pandemic has made accurate modeling and providing meaningful earnings guidance exceptionally challenging. Since the start of the pandemic, Chemed has been able to successfully navigate within this rapidly changing environment and produce operating results that we believe provide us with the ability to issue earnings guidance for the 2022 calendar year. However, this guidance should be taken with the recognition the pandemic will continue to disrupt our healthcare system and general economy to such an extent that future rules, regulations and government mandates could materially impact the company's ability to achieve this guidance.

Statistically, patients residing in senior housing are identified as hospice appropriate earlier into their terminal prognosis and have a much greater probability of having a length of stay in excess of 90 days. Hospice patients referred from hospitals, oncology practices and similar referral sources are generally more acute and have a significantly lower probability of lengths-of-stay exceeding 90 days. According to data released by the National Investment Center for Seniors Housing & Care, COVID-19 continues to adversely affect senior housing occupancy. This reduced occupancy in senior housing has had a corresponding reduction in VITAS nursing home admissions. Nursing home patients represented 15.6% of VITAS' fourth-quarter 2021 patient census. This compares to nursing home patients averaging 18.2% of total census just prior to the pandemic.

A November 2021 article in US News and World Report estimated that approximately 20% of all health care workers in the US have left the industry since the start of the pandemic. This shortage of licensed healthcare workers will generate short-term to medium-term pressure on VITAS' labor costs and related margins.

Medicare hospice reimbursement rate increases are based on a government formula that utilizes the Bureau of Labor and Statistics' measurement of healthcare wage inflation reflected in the hospital wage index basket. However, this formulaic methodology is based upon healthcare wage inflation and increased CPI measured from April 1 through March 31 to determine the following October 1 reimbursement rates. This methodology effectively delays actual wage inflation from impacting hospice reimbursement by 12 to 18 months.

VITAS anticipates that senior housing will continue to have weak occupancy rates at least through the first half of 2022. Accordingly, VITAS anticipates senior housing hospice referrals will not have meaningful growth until the second half of 2022. Labor cost increases and related margin pressure are anticipated to continue through all of 2022 with some moderation starting with the next reimbursement increase on October 1, 2022.

Based upon the above discussion, VITAS 2022 revenue, prior to Medicare Cap, is estimated to decline 1.5% to 2.5% when compared to 2021. A portion of the estimated revenue reduction, approximately \$15 million, is the result of the phase out of sequestration relief over the first half of 2022 compared to a full year of sequestration relief in 2021. ADC is estimated to decline 1.0% to 1.5%. Full year adjusted EBITDA margin, prior to Medicare Cap, is estimated to be 15.5% to 16.0%. We are currently estimating \$12 million for Medicare Cap billing limitations in calendar year 2022.

Roto-Rooter is forecasted to achieve full-year 2022 revenue growth of 8.0% to 9.5%. Roto-Rooter's adjusted EBITDA margin for 2022 is expected to be 28.5% to 29.5%.

Based upon the above, full-year 2022 earnings per diluted share, excluding non-cash expense for stock options, tax benefits from stock option exercises, costs related to litigation and other discrete items, is estimated to be in the range of \$19.10 to \$19.50. This 2022 guidance assumes an effective corporate tax rate on adjusted earnings of 25.1% and a diluted share count of 15.25 million shares. Chemed's 2021 reported adjusted earnings per diluted share was \$19.33.

*LIQUIDITY AND CAPITAL RESOURCES*

Significant factors affecting our cash flows during 2021 and financial position at December 31, 2021, include the following:

- Our operations generated cash of \$308.6 million.
- We repurchased \$576.0 million of our stock.
- We spent \$58.7 million on capital expenditures.
- We paid \$22.0 million in dividends.
- We borrowed \$185.0 million of long-term debt from our existing credit agreement.

The ratio of total debt to total capital was 22.9% at December 31, 2021. The Company had no debt outstanding at December 31, 2020. Our current ratio was 0.76 and 1.10 at December 31, 2021 and 2020, respectively.

On June 20, 2018, we replaced our existing credit agreement with the Fourth Amended and Restated Credit Agreement (“2018 Credit Agreement”). Terms of the 2018 Credit Agreement consist of a five-year, \$450 million revolving credit facility and a \$150 million expansion feature, which may consist of term loans or additional revolving commitments. The interest rate at inception of the agreement is LIBOR plus 100 basis points. The 2018 Credit Agreement has a floating interest rate that is generally LIBOR plus a tiered additional rate which varies based on our current leverage ratio. For December 31, 2021 and 2020, respectively, the interest rate is LIBOR plus 100 basis points. The 2018 Credit Agreement includes transition provisions in the instance LIBOR is no longer published or used as an industry-accepted rate.

The 2018 Credit Agreement contains the following quarterly financial covenants effective as of December 31, 2021:

Description	Requirement	Chemed December 31, 2021
Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA)	< 3.50 to 1.00	0.52 to 1.00
Fixed Charge Coverage Ratio (Consolidated Free Cash Flow/Consolidated Fixed Charges)	> 1.50 to 1.00	3.12 to 1.00

We forecast to be in compliance with all debt covenants through fiscal 2022.

We have issued \$46.2 million in standby letters of credit as of December 31, 2021, mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of December 31, 2021, we have approximately \$218.8 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility. We believe our cash flow from operating activities and our unused eligible lines of credit are sufficient to fund our obligations and operate our business in the near and long term. We continually evaluate cash utilization alternatives, including share repurchase, debt repayment, acquisitions, and increased dividends to determine the most beneficial use of available capital resources.

**CASH FLOW**

Our cash flows for 2021, 2020 and 2019 are summarized as follows (in millions):

	For the Years Ended December 31,		
	2021	2020	2019
Net cash provided by operating activities	\$ 308.6	\$ 489.3	\$ 301.2
Capital expenditures	(58.7)	(58.8)	(53.0)
Net cash provided for operating activities after capital expenditures	249.9	430.5	248.2
Purchase of treasury stock in the open market	(576.0)	(175.6)	(92.6)
Net increase/(decrease) in long-term debt	185.0	(90.0)	0.8
Proceeds from exercise of stock options	35.8	50.4	34.4
Dividends paid	(22.0)	(21.1)	(19.8)
Capital stock surrendered to pay taxes on on stock-based compensation	(15.1)	(25.3)	(28.5)
Change in cash overdraft payable	11.9	(9.8)	(3.9)
Business combinations	-	(3.6)	(138.0)
Other--net	0.7	1.0	0.7
(Decrease)/increase in cash and cash equivalents	\$ (129.8)	\$ 156.5	\$ 1.3

**2021 versus 2020**

Net cash provided by operating activities decreased \$180.7 million from December 31, 2020 to December 31, 2021. The main driver of the decrease relates to decreased earnings of \$50.9 million, a \$33.9 million decrease in income taxes payable as well as by a \$18.2 decrease in deferred payroll taxes. We deferred \$36.4 million of payroll tax payments as permitted by the CARES Act in 2020. We repaid \$18.2 million of these deferred payroll taxes in 2021. Additionally, significant changes in our accounts receivable balances are driven mainly by the timing of payments received from the Federal government at our VITAS subsidiary. We typically receive a payment in excess of \$40.0 million from the Federal government from hospice services every other Friday. The timing of year end will have a significant impact on the accounts receivable at VITAS. These changes generally normalize over a two year period, as cash flow variations in one year are offset in the following year. The swing in accounts receivable reduced cash flow by \$21.2 million between 2021 and 2020.

In 2021, we repurchased 1,195,529 shares of Chemed capital stock at a weighted average price of \$482.20 per share. In 2020, we repurchased approximately 384,552 shares of Chemed stock at a weighted average price of \$456.98 per share. Based on our current operations and our current sources of capital, we believe we have the ability to continue our current share repurchase program into the foreseeable future.

**2020 versus 2019**

Net cash provided by operating activities increased \$188.0 million from December 31, 2019 to December 31, 2020. The main driver of the increase relates to increased earnings which includes the receipt of \$80.2 million in CARES Act grant funds. We deferred \$36.4 million of payroll tax payments as permitted by the CARES Act. Additionally, significant changes in our accounts receivable balances are driven mainly by the timing of payments received from the Federal government at our VITAS subsidiary. We typically receive a payment in excess of \$40.0 million from the Federal government from hospice services every other Friday. The timing of year end will have a significant impact on the accounts receivable at VITAS. These changes generally normalize over a two year period, as cash flow variations in one year are offset in the following year. The swing in accounts receivable improved cash flow by \$32.0 million between 2020 and 2019.

In 2020, we repurchased 384,252 shares of Chemed capital stock at a weighted average price of \$456.98 per share. In 2019, we repurchased approximately 269,009 shares of Chemed stock at a weighted average price of \$344.34 per share. Based on our current operations and our current sources of capital, we believe we have the ability to continue our current share repurchase program into the foreseeable future.

The Company made two large acquisitions in 2019, the magnitude of which were not repeated in 2020.

*COMMITMENTS AND CONTINGENCIES*

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

Please see Note 17 in the Notes to the Consolidated Financial Statements for a description of current material legal matters.

**CONTRACTUAL OBLIGATIONS**

The table below summarizes our debt and contractual obligations as of December 31, 2021 (in thousands):

	Total	Less than 1 year	1-3 Years	3-5 Years	After 5 Years
Long-term debt obligations (a)	\$ 185,000	\$ -	\$ 185,000	\$ -	\$ -
Interest on long-term debt	3,053	2,035	1,018	-	-
Lease liabilities	138,542	37,896	56,291	29,010	15,345
Purchase obligations (b)	73,024	73,024	-	-	-
Other long-term obligations (c)	106,104	1,877	3,754	1,876	98,597
Total contractual cash obligations	<u>\$ 505,723</u>	<u>\$ 114,832</u>	<u>\$ 246,063</u>	<u>\$ 30,886</u>	<u>\$ 113,942</u>

(a) Represents the face value of the obligation.

(b) Purchase obligations consist of accounts payable at December 31, 2021.

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

RESULTS OF OPERATIONS

**2021 Versus 2020 – Consolidated Results**

Set forth below are the year-to-year changes in the components of the statement of operations relating to income for 2021 versus 2020 (in thousands, except percentages):

	<b>Favorable/(Unfavorable)</b>	
	<b>Amount</b>	<b>Percent</b>
Service revenues and sales		
Roto-Rooter	\$ 133,099	18
VITAS	<u>(73,421)</u>	(6)
Total	59,678	3
Cost of services provided and goods sold	8,739	1
Selling, general and administrative expenses	(36,509)	(11)
Depreciation	(2,415)	(5)
Amortization	(53)	(1)
Other operating expenses	<u>(76,082)</u>	(101)
Income from operations	(46,642)	(12)
Interest expense	487	21
Other income - net	479	6
Income before income taxes	(45,676)	(12)
Income taxes	<u>(5,240)</u>	(7)
Net income	<u>\$ (50,916)</u>	(16)

The VITAS segment revenue is as follows (dollars in thousands):

	<b>2021</b>	<b>2020</b>
Routine homecare	\$ 1,069,766	\$ 1,106,358
Continuous care	94,338	136,011
Inpatient care	113,187	114,956
Other	12,142	11,164
Medicare cap adjustment	(6,597)	(6,678)
Implicit price concessions	(11,530)	(14,970)
Room and board, net	<u>(10,060)</u>	(12,174)
Net revenue	<u>\$ 1,261,246</u>	<u>\$ 1,334,667</u>

Days of care are as follows:

	<b>Days of Care</b>		<b>Increase/(Decrease)</b>
	<b>2021</b>	<b>2020</b>	<b>Percent</b>
Routine homecare	5,347,170	5,597,213	(4)
Nursing home	993,322	1,097,493	(9)
Respite	21,403	20,387	5
Subtotal routine homecare and respite	6,361,895	6,715,093	(5)
Continuous care	101,539	141,693	(28)
General inpatient	107,685	112,718	(4)
Total days of care	<u>6,571,119</u>	<u>6,969,504</u>	(6)

The decrease in service revenues at VITAS is comprised primarily of a 5.7% decrease in days-of-care, a 1.7% decrease in acuity mix shift offset by a 1.7% increase in geographically weighted reimbursement rates. The combination of a lower Medicare cap revenue reduction and other contra revenue changes offset a portion of the revenue decline by approximately 20 basis points.

The Roto-Rooter segment revenue is as follows (dollars in thousands):

	<u>2021</u>	<u>2020</u>
Drain cleaning - short term core	\$ 254,773	\$ 218,500
Plumbing - short term core	<u>176,051</u>	<u>147,326</u>
Subtotal	430,824	365,826
Excavation - short term core	215,190	184,960
Water restoration	153,115	126,378
Contractor operations	76,858	64,727
Outside franchisee fees	5,068	4,893
Other - short term core	1,138	1,714
Other	15,576	13,537
Implicit price concessions and credit memos	<u>(19,754)</u>	<u>(17,119)</u>
Total	<u>\$ 878,015</u>	<u>\$ 744,916</u>

The increase in drain cleaning revenues for 2021 versus 2020 is attributable to a 10.1% increase in price and service mix shift and a 6.5% increase in job count. The increase in plumbing revenues for 2021 versus 2020 is attributable to a 10.1% increase in price and service mix shift and a 9.4% increase in job count. The increase in excavation revenues for 2021 versus 2020 is attributable to a 12.6% increase in price and service mix shift and a 3.7% increase in job count. Water restoration revenue for 2021 versus 2020 is attributable to a 14.5% increase in price and service mix shift and a 6.7% increase in job count. Contractor operations increased 18.7%. The increase in job count for all service lines was driven by both residential and commercial customers.

The consolidated gross margin excluding depreciation was 36.0% in 2021 versus 33.7% in 2020. On a segment basis, VITAS' gross margin excluding depreciation was 24.4% in 2021 and 24.3% in 2020. Roto-Rooter's gross margin excluding depreciation was 52.6% in 2021 and 50.7% in 2020. The increase is primarily due to increased revenue and improved labor costs.

Selling, general and administrative expenses ("SG&A") for 2021 and 2020 comprise (in thousands):

	<u>2021</u>	<u>2020</u>
SG&A expenses before long-term incentive compensation, and the impact of market value adjustments related to deferred compensation trusts	\$ 349,250	\$ 313,348
Long-term incentive compensation	9,167	8,937
Impact of market value adjustments related to assets held in deferred compensation trusts	8,310	7,933
Total SG&A expenses	<u>\$ 366,727</u>	<u>\$ 330,218</u>

SG&A expenses before long-term incentive compensation and the impact of market value adjustments related to deferred compensation trusts for 2021 were up 11.5% when compared to 2020. This increase was mainly a result of the increase in variable selling and general administrative expenses at Roto-Rooter and increased variable bonus expense at Roto-Rooter caused by increased income.

Other operating (income)/expense for 2021 and 2020 comprise (in thousands):

	<u>2021</u>	<u>2020</u>
Loss on disposal of property and equipment	\$ 987	\$ 541
CARES Act grant income	-	(80,225)
Litigation settlements	-	4,589
Total other operating expenses	<u>\$ 987</u>	<u>\$ (75,095)</u>

Chemed Corporation and Subsidiary Companies

Other income-net for 2021 and 2020 comprise (in thousands):

	<u>2021</u>	<u>2020</u>
Market value gains on assets held in deferred compensation trusts	\$ 8,310	\$ 7,933
Interest income	377	757
Other	457	(25)
Total other income	<u>\$ 9,144</u>	<u>\$ 8,665</u>

Our effective tax rate reconciliation is as follows:

	<u>2021</u>	<u>2020</u>
Income tax provision calculated using the statutory rate	\$ 73,566	\$ 83,158
State and local income taxes, less federal income tax effect	10,025	13,855
Excess stock compensation tax benefits	(9,884)	(26,089)
Nondeductible expenses	7,443	5,377
Other--net	614	223
Income tax provision	<u>\$ 81,764</u>	<u>\$ 76,524</u>
Effective tax rate	<u>23.3 %</u>	<u>19.3 %</u>

Net income for both periods include the following after-tax adjustments that increased/(reduced) after-tax earnings (in thousands):

	<u>2021</u>	<u>2020</u>
VITAS		
COVID-19 expense	\$ (12,157)	\$ (26,430)
Facility relocation expenses	(1,384)	-
CARES Act grant income	-	59,848
Medicare cap sequestration adjustment	-	(462)
Roto-Rooter		
Amortization of reacquired franchise agreements	(6,915)	(6,914)
Direct costs related to COVID-19	(1,789)	(2,808)
Litigation settlements	72	(2,675)
Corporate		
Stock option expense	(18,879)	(15,700)
Excess tax benefits on stock compensation	9,884	26,089
Long-term incentive compensation	(8,094)	(7,895)
Direct costs related to COVID-19	(29)	-
Other	(166)	-
Total	<u>\$ (39,457)</u>	<u>\$ 23,053</u>

**2021 Versus 2020– Segment Results**

Net income/(loss) for 2021 versus 2020 (in thousand):

	<u>2021</u>	<u>2020</u>
VITAS	\$ 162,431	\$ 238,782
Roto-Rooter	166,333	120,394
Corporate	<u>(60,214)</u>	<u>(39,710)</u>
	<u>\$ 268,550</u>	<u>\$ 319,466</u>

VITAS’ after-tax earnings decreased primarily due to lower revenue. After-tax earnings as a percent of revenue at VITAS in 2021 was 12.9% as compared to 17.9% in 2020.

Roto-Rooter’s net income was impacted in 2021 compared to 2020 primarily by higher revenue and improved labor costs. After-tax earnings as a percent of revenue at Roto-Rooter in 2021 was 18.9% as compared to 16.2% in 2020.

After-tax Corporate expenses for 2021 increased 51.6% when compared to 2020 due mainly to a \$16.2 million decrease in excess tax benefits on stock compensation and a \$3.2 million increase in after-tax stock option expense.

**2020 Versus 2019 – Consolidated Results**

Set forth below are the year-to-year changes in the components of the statement of operations relating to income for 2020 versus 2019 (in thousands, except percentages):

	<b>Favorable/(Unfavorable)</b>	
	<b>Amount</b>	<b>Percent</b>
Service revenues and sales		
VITAS	\$ 53,483	4
Roto-Rooter	87,545	13
Total	141,028	7
Cost of services provided and goods sold	(57,071)	(4)
Selling, general and administrative expenses	(24,506)	(8)
Depreciation	(5,726)	(14)
Amortization	(5,652)	(130)
Other operating expenses	84,227	922
Income from operations	132,300	51
Interest expense	2,180	48
Other income - net	(99)	(1)
Income before income taxes	134,381	51
Income taxes	(34,838)	(84)
Net income	\$ 99,543	45

The VITAS segment revenue is as follows (dollars in thousands):

	<b>2020</b>	<b>2019</b>
Routine homecare	\$ 1,106,358	\$ 1,076,025
Continuous care	136,011	133,473
Inpatient care	114,956	99,920
Other	11,164	10,433
Medicare cap adjustment	(6,678)	(12,415)
Implicit price concessions	(14,970)	(14,893)
Room and board, net	(12,174)	(11,359)
Net revenue	\$ 1,334,667	\$ 1,281,184

Days of care are as follows:

	<b>Days of Care</b>		<b>Increase/(Decrease)</b>
	<b>2020</b>	<b>2019</b>	<b>Percent</b>
Routine homecare	5,597,213	5,338,664	5
Nursing home	1,097,493	1,224,264	(10)
Respite	20,387	28,857	(29)
Subtotal routine homecare and respite	6,715,093	6,591,785	2
Continuous care	141,693	166,783	(15)
General inpatient	112,718	120,063	(6)
Total days of care	6,969,504	6,878,631	1

The remaining increase in VITAS' revenues for 2020 versus 2019 was primarily comprised of a geographically weighted average Medicare reimbursement rate increase of approximately 4.5%, \$6.7 million in Medicare cap revenue reductions compared to \$12.4 million in Medicare cap revenue reductions in the same period of 2019, acuity mix shift, fluctuations in net room and board and contractual adjustments that negatively impacted revenue growth, when compared to the prior-year period.

The Roto-Rooter segment revenue is as follows (dollars in thousands):

	<u>2020</u>	<u>2019</u>
Drain cleaning - short term core	\$ 218,500	\$ 195,063
Plumbing - short term core	<u>147,326</u>	<u>139,662</u>
Subtotal	<b>365,826</b>	334,725
Excavation - short term core	<b>184,960</b>	145,540
Water restoration	<b>126,378</b>	115,949
Contractor operations	<b>64,727</b>	58,086
Outside franchisee fees	<b>4,893</b>	6,152
Other - short term core	<b>1,714</b>	2,360
Other	<b>13,537</b>	12,279
Implicit price concessions and credit memos	<b>(17,119)</b>	(17,720)
Total	<u><b>\$ 744,916</b></u>	<u><b>\$ 657,371</b></u>

All major lines of business at Roto-Rooter were impacted by the Oakland and HSW acquisitions that occurred during 2019 which increased revenue \$49.9 million. The increase in drain cleaning revenues for 2020 versus 2019 is attributable to a 2.5% increase in price and service mix shift and a 9.5% increase in job count. The increase in plumbing revenues for 2020 versus 2019 is attributable to a 0.1% increase in price and service mix shift and a 5.4% increase in job count. The increase in excavation revenues for 2020 versus 2019 is attributable to a 9.0% increase in price and service mix shift and an 18.1% increase in job count. Water restoration revenue for 2020 versus 2019 is attributable to a 2.8% increase in price and service mix shift and a 6.2% increase in job count. Contractor operations increased 11.4% mainly due to the HSW acquisition and their continued expansion into water restoration.

The consolidated gross margin excluding depreciation was 33.7% in 2020 versus 31.8% in 2019. On a segment basis, VITAS' gross margin excluding depreciation was 24.3% in 2020 and 23.3% in 2019. The increase is primarily due to improved labor management. Roto-Rooter's gross margin excluding depreciation was 50.7% in 2020 and 48.4% in 2019. The increase is primarily due to increased revenue covering more fixed costs.

Selling, general and administrative expenses ("SG&A") for 2020 and 2019 comprise (in thousands):

	<u>2020</u>	<u>2019</u>
SG&A expenses before long-term incentive compensation, and the impact of market value adjustments related to deferred compensation trusts	\$ 313,348	\$ 289,828
Long-term incentive compensation	<b>8,937</b>	7,630
Impact of market value adjustments related to assets held in deferred compensation trusts	<b>7,933</b>	8,254
Total SG&A expenses	<u><b>\$ 330,218</b></u>	<u><b>\$ 305,712</b></u>

SG&A expenses before long-term incentive compensation and the impact of market value adjustments related to deferred compensation trusts for 2020 were up 8.1% when compared to 2019. This increase was mainly a result of the increase in variable selling expenses caused by increased revenue and increased advertising expense at Roto-Rooter.

Depreciation expense increased \$5.7 million when compared to 2019 primarily due to new equipment purchased at Roto-Rooter related to the acquisitions completed in the second half of 2019.

Amortization expense increased \$5.7 million mainly as a result of reacquired franchise rights amortization from the Oakland and HSW acquisition completed in the second half of 2019.

Other operating (income)/expense for 2020 and 2019 comprise (in thousands):

	<u>2020</u>	<u>2019</u>
CARES Act grant income	\$ (80,225)	\$ -
Litigation settlements	<b>4,589</b>	6,000
Loss on disposal of property and equipment	<b>541</b>	866
Loss on sale of transportation equipment	-	2,266
Total other operating expenses	<u><b>\$ (75,095)</b></u>	<u><b>\$ 9,132</b></u>

Chemed Corporation and Subsidiary Companies

Other income-net for 2020 and 2019 comprise (in thousands):

	<u>2020</u>	<u>2019</u>
Market value gains on assets held in deferred compensation trusts	\$ 7,933	\$ 8,254
Interest income	757	513
Other	(25)	(3)
Total other income	<u>\$ 8,665</u>	<u>\$ 8,764</u>

Our effective tax rate reconciliation is as follows:

	<u>2020</u>	<u>2019</u>
Income tax provision calculated using the statutory rate	\$ 83,158	\$ 54,938
Excess stock compensation tax benefits	(26,089)	(24,177)
State and local income taxes, less federal income tax effect	13,855	7,880
Nondeductible expenses	5,377	3,048
Other--net	223	(3)
Income tax provision	<u>\$ 76,524</u>	<u>\$ 41,686</u>
Effective tax rate	<u>19.3 %</u>	<u>15.9 %</u>

Net income for both periods include the following after-tax adjustments that increased/(reduced) after-tax earnings (in thousands):

	<u>2020</u>	<u>2019</u>
VITAS		
CARES Act grant income	\$ 59,848	\$ -
COVID-19 expense	(26,430)	-
Medicare cap sequestration adjustment	(462)	(2,965)
Litigation settlements	-	(4,476)
Non cash ASC 842 expense	-	(490)
Roto-Rooter		
Amortization of reacquired franchise agreements	(6,914)	(2,913)
Direct costs related to COVID-19	(2,808)	-
Litigation settlements	(2,675)	-
Acquisition expense	-	(3,429)
Non cash ASC 842 expense	-	(40)
Corporate		
Excess tax benefits on stock compensation	26,089	24,177
Stock option expense	(15,700)	(12,237)
Long-term incentive compensation	(7,895)	(6,440)
Loss on sale of transportation equipment	-	(1,733)
Acquisition expense	-	(128)
Non cash ASC 842 expense	-	124
Total	<u>\$ 23,053</u>	<u>\$ (10,550)</u>

**2020 Versus 2019 – Segment Results**

Net income/(loss) for 2020 versus 2019 (in thousand):

	<u>2020</u>	<u>2019</u>
VITAS	\$ 238,782	\$ 155,822
Roto-Rooter	120,394	103,710
Corporate	<u>(39,710)</u>	<u>(39,609)</u>
	<u>\$ 319,466</u>	<u>\$ 219,923</u>

VITAS' after-tax earnings were positively impacted in 2020 compared to 2019 due to higher revenue and improved labor management and ancillary costs, the recognition of \$59.8 million in CARES Act grant income offset by \$26.4 million in direct costs related to COVID-19. After-tax earnings as a percent of revenue at VITAS in 2020 was 17.9% as compared to 12.2% in 2019.

Roto-Rooter's net income was positively impacted in 2020 compared to 2019 primarily by an increase in revenue offset by increased depreciation and amortization expense. After-tax earnings as a percent of revenue at Roto-Rooter in 2020 was 16.2% as compared to 15.8% in 2019.

After-tax Corporate expenses for 2020 were essentially flat compared to 2019.

CRITICAL ACCOUNTING ESTIMATES

**Revenue Recognition**

In May 2014, the FASB issued Accounting Standards Update “ASU No. 2014-09 – Revenue from Contracts with Customers.” The standard and subsequent amendments are theoretically intended to develop a common revenue standard for removing inconsistencies and weaknesses, improve comparability, provide for more useful information to users through improved disclosure requirements and simplify the preparation of financial statements. The standard is also referred to as Accounting Standards Codification No. 606 (“ASC606”). We adopted ASC 606 effective January 1, 2018. The required disclosures of ASC 606 and impact of adoption are discussed below for each of our operating subsidiaries.

VITAS

Service revenue for VITAS is reported at the amount that reflects the ultimate consideration we expect to receive in exchange for providing patient care. These amounts are due from third-party payors, primarily commercial health insurers and government programs (Medicare and Medicaid), and includes variable consideration for revenue adjustments due to settlements of audits and reviews, as well as certain hospice-specific revenue capitations. Amounts are generally billed monthly or subsequent to patient discharge. Subsequent changes in the transaction price initially recognized are not significant.

Hospice services are provided on a daily basis and the type of service provided is determined based on a physician’s determination of each patient’s specific needs on that given day. Reimbursement rates for hospice services are on a *per diem* basis regardless of the type of service provided or the payor. Reimbursement rates from government programs are established by the appropriate governmental agency and are standard across all hospice providers. Reimbursement rates from health insurers are negotiated with each payor and generally structured to closely mirror the Medicare reimbursement model. The types of hospice services provided and associated reimbursement model for each are as follows:

*Routine Home Care* occurs when a patient receives hospice care in their home, including a nursing home setting. 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. For Medicare patients, the routine home care rate reflects a two-tiered rate, with a higher rate for the first 60 days of a hospice patient’s care and a lower rate for days 61 and after. In addition, there is a Service Intensity Add-on payment which covers direct home care visits conducted by a registered nurse or social worker in the last seven days of a hospice patient’s life, reimbursed up to 4 hours per day in 15 minute increments at the continuous home care rate.

*General Inpatient Care* occurs when a patient requires services in a controlled setting for a short period of time 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* is provided to patients while at home, including a nursing home setting, 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 at midnight. The care must be predominantly nursing care provided by either a registered nurse or licensed nurse practitioner. While the published Medicare continuous home care rates are daily rates, Medicare pays for continuous home care in 15 minute increments. This 15 minute rate is calculated by dividing the daily rate by 96.

*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.

Each level of care represents a separate promise under the contract of care and is provided independently for each patient contingent upon the patient’s specific medical needs as determined by a physician. However, the clinical criteria used to determine a patient’s level of care is consistent across all patients, given that, each patient is subject to the same payor rules and regulations. As a result, we have concluded that each level of care is capable of being distinct and is distinct in the context of the contract. Furthermore, we have determined that each level of care represents a stand ready service provided as a series of either days or hours of patient care. We believe that the performance obligations for each level of care meet criteria to be satisfied over time. VITAS recognizes revenue

based on the service output. VITAS believes this to be the most faithful depiction of the transfer of control of services as the patient simultaneously receives and consumes the benefits provided by our performance. Revenue is recognized on a daily or hourly basis for each patient in accordance with the reimbursement model for each type of service. VITAS' performance obligations relate to contracts with an expected duration of less than one year. Therefore, VITAS has elected to apply the optional exception provided in ASC 606 and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially satisfied performance obligations referred to above relate to bereavement services provided to patients' families for at least 12 months after discharge.

Care is provided to patients regardless of their ability to pay. Patients who meet our criteria for charity care are provided care without charge. There is no revenue or associated accounts receivable in the accompanying consolidated financial statements related to charity care. The cost of providing charity care during the years ended December 31, 2021, 2020 and 2019, was \$8.5 million, \$8.1 million and \$9.0 million, respectively and is included in cost of services provided and goods sold. The cost of charity care is calculated by taking the ratio of charity care days to total days of care and multiplying by total cost of care.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance which vary in amount. VITAS also provides service to patients without a reimbursement source and may offer those patients discounts from standard charges. VITAS estimates the transaction price for patients with deductibles and coinsurance, along with those uninsured patients, based on historical experience and current conditions. The estimate of any contractual adjustments, discounts or implicit price concessions reduces the amount of revenue initially recognized. Subsequent changes to the estimate of the transaction price are recorded as adjustments to patient service revenue in the period of change. Subsequent changes that are determined to be the result of an adverse change in the patients' ability to pay (i.e. change in credit risk) are recorded as bad debt expense. VITAS has no material adjustments related to subsequent changes in the estimate of the transaction price or subsequent changes as the result of an adverse change in the patient's ability to pay for any period reported.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. Compliance with such laws and regulations may be subject to future government review and interpretation. Additionally, the contracts we have with commercial health insurance payors provide for retroactive audit and review of claims. Settlement with third party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. The variable consideration is estimated based on the terms of the payment agreement, existing correspondence from the payor and our historical settlement activity. These estimates are adjusted in future periods, as new information becomes available.

We are subject to certain limitations on Medicare payments for services which are considered variable consideration, as follows:

*Inpatient Cap.* 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 more than the 20% figure may be reimbursed only at the routine homecare rate. None of VITAS' hospice programs exceeded the payment limits on inpatient services during the years ended December 31, 2021, 2020, and 2019.

*Medicare Cap.* We are also subject to a Medicare annual per-beneficiary cap ("Medicare cap"). Compliance with the Medicare cap is measured in one of two ways based on a provider election. The "streamlined" method compares 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 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. At December 31, 2021, all our programs except one are using the "streamlined" method.

The "proportional" method compares 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 the Medicare provider number between September 28 and September 27 of the following year with the product of the per beneficiary cap amount and a pro-rated number of Medicare beneficiaries receiving hospice services from that program during the same period. The pro-rated number of Medicare beneficiaries is calculated based on the ratio of days the beneficiary received hospice services during the measurement period to the total number of days the beneficiary received hospice services.

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

In 2013, the U.S. government implemented automatic budget reductions of 2.0% for all government payees, including hospice benefits paid under the Medicare program. In 2015, CMS determined that the Medicare cap should be calculated “as if” sequestration did not occur. Because of this decision, VITAS has received notification from our third-party intermediary that an additional \$8.7 million is owed for Medicare cap in three programs arising during the 2013 through 2020 measurement periods. The amounts are automatically deducted from our semi-monthly PIP payments. We do not believe that CMS is authorized under the sequestration authority or the statutory methodology for establishing the Medicare cap to the amounts they have withheld and intend to withhold under their current “as if” methodology. We have appealed CMS’s methodology change.

During the year ended December 31, 2021 we recorded \$6.6 million in Medicare cap revenue reduction related to two programs’ projected 2021 measurement period liability and two programs’ 2022 measurement period liability.

During the year ended December 31, 2020 we recorded \$6.7 million in Medicare cap revenue reduction related to four programs’ projected 2020 measurement period liability.

During the years ended December 31, 2019, we recorded \$12.4 million in Medicare cap revenue reduction related to four programs’ 2020 measurement period liability and four programs’ projected 2019 measurement period liability.

At December 31, 2021 and 2020, the Medicare cap liability included in other current liabilities on the accompanying balance sheets was \$13.5 million and \$15.1 million, respectively.

For VITAS’ patients in the nursing home setting in which Medicaid pays the nursing home room and board, VITAS serves as a pass-through between Medicaid and the nursing home. We are responsible for paying the nursing home for that patient’s room and board. Medicaid reimburses us for 95% of the amount we have paid. This results in a 5% net expense for VITAS related to nursing home room and board. This transaction creates a performance obligation in that VITAS is facilitating room and board being delivered to our patient. As a result, the 5% net expense is recognized as a contra-revenue account under ASC 606 in the accompanying financial statements.

#### Roto-Rooter

Roto-Rooter provides plumbing, drain cleaning, water restoration and other related services to both residential and commercial customers primarily in the United States. Services are provided through a network of company-owned branches, independent contractors and franchisees. Service revenue for Roto-Rooter is reported at the amount that reflects the ultimate consideration we expect to receive in exchange for providing services.

Roto-Rooter owns and operates branches focusing mainly on large population centers in the United States. Roto-Rooter’s primary lines of business in company-owned branches consist of plumbing, sewer and drain cleaning, excavation and water restoration. For purposes of ASC 606 analysis, plumbing, sewer and drain cleaning, and excavation have been combined into one portfolio and are referred to as “short-term core services”. Water restoration is analyzed as a separate portfolio. The following describes the key characteristics of these portfolios:

*Short-term Core Services* are plumbing, drain and sewer cleaning and excavation services. These services are provided to both commercial and residential customers. The duration of services provided in this category range from a few hours to a few days. There are no significant warranty costs or on-going obligations to the customer once a service has been completed. For residential customers, payment is received at the time of job completion before the Roto-Rooter technician leaves the residence. Commercial customers may be granted credit subject to internally designated authority limits and credit check guidelines. If credit is granted, payment terms are 30 days or less.

Each job in this category is a distinct service with a distinct performance obligation to the customer. Revenue is recognized at the completion of each job. Variable consideration consists of pre-invoice discounts and post-invoice discounts. Pre-invoice discounts are given in the form of coupons or price concessions. Post-invoice discounts consist of credit memos generally granted to resolve customer service issues. Variable consideration is estimated based on historical activity and recorded at the time service is completed.

*Water Restoration Services* involve the remediation of water and humidity after a flood. These services are provided to both commercial and residential customers. The duration of services provided in this category generally ranges from 3 to 5 days. There are no significant warranties or on-going obligations to the customer once service has been completed. The majority of these services are paid by the customer's insurance company. Variable consideration relates primarily to allowances taken by insurance companies upon payment. Variable consideration is estimated based on historical activity and recorded at the time service is completed.

For both short-term core services and water restoration services, Roto-Rooter satisfies its performance obligation at a point in time. The services provided generally involve fixing plumbing, drainage or flood-related issues at the customer's property. At the time service is complete, the customer acknowledges its obligation to pay for service and its satisfaction with the service performed. This provides evidence that the customer has accepted the service and Roto-Rooter is now entitled to payment. As such, Roto-Rooter recognizes revenue for these services upon completion of the job and receipt of customer acknowledgement. Roto-Rooter's performance obligations for short-term core services and water restoration services relate to contracts with an expected duration of less than a year. Therefore, Roto-Rooter has elected to apply the optional exception provided in ASC 606 and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Roto-Rooter does not have significant unsatisfied or partially unsatisfied performance obligations at the time of initial revenue recognition for short-term core or water restoration services.

Roto-Rooter owns the rights to certain territories and contracts with an independent third-party to operate the territory under Roto-Rooter's registered trademarks. The contract is for a specified term but cancellable by either party without penalty with 90 days advance notice. Under the terms of these arrangements, Roto-Rooter provides certain back office support and advertising along with a limited license to use Roto-Rooter's registered trademarks. The independent contractor is responsible for all day-to-day management of the business including staffing decisions and pricing of services provided. All performance obligations of Roto-Rooter cease at the termination of the arrangement.

Independent contractors pay Roto-Rooter a standard fee calculated as a percentage of cash collection from their sales. The primary value for the independent contractors under these arrangements is the right to use Roto-Rooter's registered trademarks. Roto-Rooter recognizes revenue from independent contractors over-time (weekly) as the independent contractor's labor sales are completed and payment from customers are received. Payment from independent contractors is also received on a weekly basis. The use of Roto-Rooter's registered trademarks and advertising provides immediate value to the independent contractor as a result of Roto-Rooter's nationally recognized brand. Therefore, over-time recognition provides the most faithful depiction of the transfer of services as the customer simultaneously receives and consumes the benefits provided. There is no significant variable consideration related to these arrangements.

Roto-Rooter has licensed the rights to operate under Roto-Rooter's registered trademarks in other territories to franchisees. The contract is for a 10 year term but cancellable by Roto-Rooter for cause with 60 day advance notice without penalty. The franchisee may cancel the contract for any reason with 60 days advance notice without penalty. Under the terms of the contract, Roto-Rooter provides national advertising and consultation on various aspects of operating a Roto-Rooter business along with the right to use Roto-Rooter's registered trademarks. The franchisee is responsible for all day- to-day management of the business including staffing decisions, pricing of services provided and local advertising spend and placement. All performance obligations of Roto-Rooter cease at the termination of the arrangement.

Franchisees pay Roto-Rooter a standard monthly fee based on the population within the franchise territory. The standard fee is revised on a yearly basis based on changes in the Consumer Price Index for All Urban Consumers. The primary value for the franchisees under this arrangement is the right to use Roto-Rooter's registered trademarks. Roto-Rooter recognizes revenue from franchisees over-time (monthly). Payment from franchisees is also received on a monthly basis. The use of Roto-Rooter's registered trademarks and advertising provides immediate value to the franchisees as a result of Roto-Rooter's nationally recognized brand. Therefore, over-time recognition provides the most faithful depiction of the transfer of services as the customer simultaneously receives and consumes the benefits provided. There is no significant variable consideration related to these arrangements.

## Insurance Accruals

For the Roto-Rooter segment and Chemed's Corporate Office, we initially 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 \$750,000. In developing our estimates, we accumulate historical claims data for the previous 10 years to calculate loss development factors ("LDF") by insurance coverage type. LDFs are applied to known claims to estimate the ultimate potential liability for known and unknown claims for each open policy year. LDFs are updated annually. Because this methodology relies heavily on historical claims data, the key risk is whether the historical claims are an accurate predictor of future claims exposure. The risk also exists that certain claims have been incurred and not reported on a timely basis. To mitigate these risks, in conjunction with our TPA, we closely monitor claims to ensure timely accumulation of data and compare claims trends with the industry experience of our TPA.

For the VITAS segment, we initially self-insure for workers' compensation claims. Currently, VITAS' exposure on any single claim is capped at \$1,000,000. For VITAS' self-insurance accruals for workers' compensation, the valuation methods used are similar to those used internally for our other business units. We are also insured for other risks with respect to professional liability with a deductible of \$1,000,000.

Our casualty insurance liabilities are recorded gross before any estimated recovery for amounts exceeding our stop loss limits. Estimated recoveries from insurance carriers are recorded as accounts receivable. Claims experience adjustments to our casualty and workers' compensation accrual for the years ended December 31, 2021, 2020 and 2019, were net pretax credits of (\$6,332,000), (\$4,578,000), and (\$1,664,000) respectively.

As an indication of the sensitivity of the accrued liability to reported claims, our analysis indicates that a 1% across-the-board increase or decrease in the amount of projected losses would increase or decrease the accrued insurance liability at December 31, 2021 by \$4.3 million or 7.7%. While the amount recorded represents our best estimate of the casualty and workers' compensation insurance liability, we have calculated, based on historical claims experience, the actual loss could reasonably be expected to increase or decrease by approximately \$1.0 million as of December 31, 2021.

Unaudited Consolidating Summaries and Reconciliations of Adjusted EBITDA (in thousands)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
<b>2021</b>				
Net income/(loss)	\$ 162,431	\$ 166,333	\$ (60,214)	\$ 268,550
Add/(deduct):				
Interest expense	160	595	1,113	1,868
Income taxes	52,426	51,420	(22,082)	81,764
Depreciation	23,114	25,816	81	49,011
Amortization	71	9,969	-	10,040
EBITDA	238,202	254,133	(81,102)	411,233
Add/(deduct):				
Intercompany interest/(expense)	(18,125)	(7,180)	25,305	-
Interest income	(253)	(124)	-	(377)
Stock option expense	-	-	22,502	22,502
Direct costs related to COVID-19	16,296	2,435	38	18,769
Long-term incentive compensation	-	-	9,167	9,167
Litigation settlement	-	(98)	-	(98)
Medicare cap sequestration adjustment	-	-	218	218
Adjusted EBITDA	\$ 236,120	\$ 249,166	\$ (23,872)	\$ 461,414
<b>2020</b>				
Net income/(loss)	\$ 238,782	\$ 120,394	\$ (39,710)	\$ 319,466
Add/(deduct):				
Interest expense	166	340	1,849	2,355
Income taxes	76,473	37,038	(36,987)	76,524
Depreciation	22,168	24,292	136	46,596
Amortization	71	9,916	-	9,987
EBITDA	337,660	191,980	(74,712)	454,928
Add/(deduct):				
Intercompany interest/(expense)	(19,897)	(6,256)	26,153	-
Interest income	(668)	(76)	(13)	(757)
CARES Act grant	(80,225)	-	-	(80,225)
Direct costs related to COVID-19	35,441	3,819	-	39,260
Stock option expense	-	-	18,422	18,422
Long-term incentive compensation	-	-	8,937	8,937
Litigation settlement	-	3,639	-	3,639
Medicare cap sequestration adjustment	619	-	-	619
Adjusted EBITDA	\$ 272,930	\$ 193,106	\$ (21,213)	\$ 444,823
<b>2019</b>				
Net income/(loss)	\$ 155,822	\$ 103,710	\$ (39,609)	\$ 219,923
Add/(deduct):				
Interest expense	169	345	4,021	4,535
Income taxes	48,711	30,276	(37,301)	41,686
Depreciation	19,984	20,730	156	40,870
Amortization	71	4,264	-	4,335
EBITDA	224,757	159,325	(72,733)	311,349
Add/(deduct):				
Intercompany interest/(expense)	(18,135)	(8,152)	26,287	-
Interest income	(380)	(133)	-	(513)
Stock option expense	-	-	14,831	14,831
Long-term incentive compensation	-	-	7,630	7,630
Litigation settlement	6,000	-	-	6,000
Acquisition expense	-	4,664	170	4,834
Medicare cap sequestration adjustment	3,982	-	-	3,982
Loss on sale of transportation equipment	-	-	2,266	2,266
Non cash ASC 842 expenses/(benefit)	656	55	(163)	548
Adjusted EBITDA	\$ 216,880	\$ 155,759	\$ (21,712)	\$ 350,927

**CHEMED CORPORATION AND SUBSIDIARY COMPANIES**  
**RECONCILIATION OF ADJUSTED NET INCOME**  
(in thousands, except per share data)(unaudited)

	For the Years Ended December 31,		
	2021	2020	2019
Net income as reported	\$ 268,550	\$ 319,466	\$ 219,923
Add/(deduct) pre-tax cost of:			
Stock option expense	22,502	18,422	14,831
COVID-19 expenses	18,769	39,260	-
Amortization of reacquired franchise agreements	9,408	9,408	3,964
Long-term incentive compensation	9,167	8,937	7,630
Facility relocation expenses	1,855	-	-
Other	218	-	-
Litigation settlements	(98)	3,639	6,000
CARES Act grant	-	(80,225)	-
Medicare cap sequestration adjustment	-	619	3,982
Acquisition expenses	-	-	4,834
Loss on sale of transportation equipment	-	-	2,266
Non cash ASC 842 expenses	-	-	548
Add/(deduct) tax impacts:			
Tax impact of the above pre-tax adjustments (1)	(12,480)	2,976	(9,328)
Excess tax benefits on stock compensation	(9,884)	(26,089)	(24,177)
Adjusted net income	<u>\$ 308,007</u>	<u>\$ 296,413</u>	<u>\$ 230,473</u>
Diluted Earnings Per Share As Reported			
Net income	<u>\$ 16.85</u>	<u>\$ 19.48</u>	<u>\$ 13.31</u>
Average number of shares outstanding	<u>15,938</u>	<u>16,398</u>	<u>16,527</u>
Adjusted Diluted Earnings Per Share			
Net income	<u>\$ 19.33</u>	<u>\$ 18.08</u>	<u>\$ 13.95</u>
Average number of shares outstanding	<u>15,938</u>	<u>16,398</u>	<u>16,527</u>

(1) The tax impact of pre-tax adjustments was calculated using the effective tax rate of the operating unit for which each adjustment is associated.

The "Footnotes to Financial Statements" are integral parts of this financial information.

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

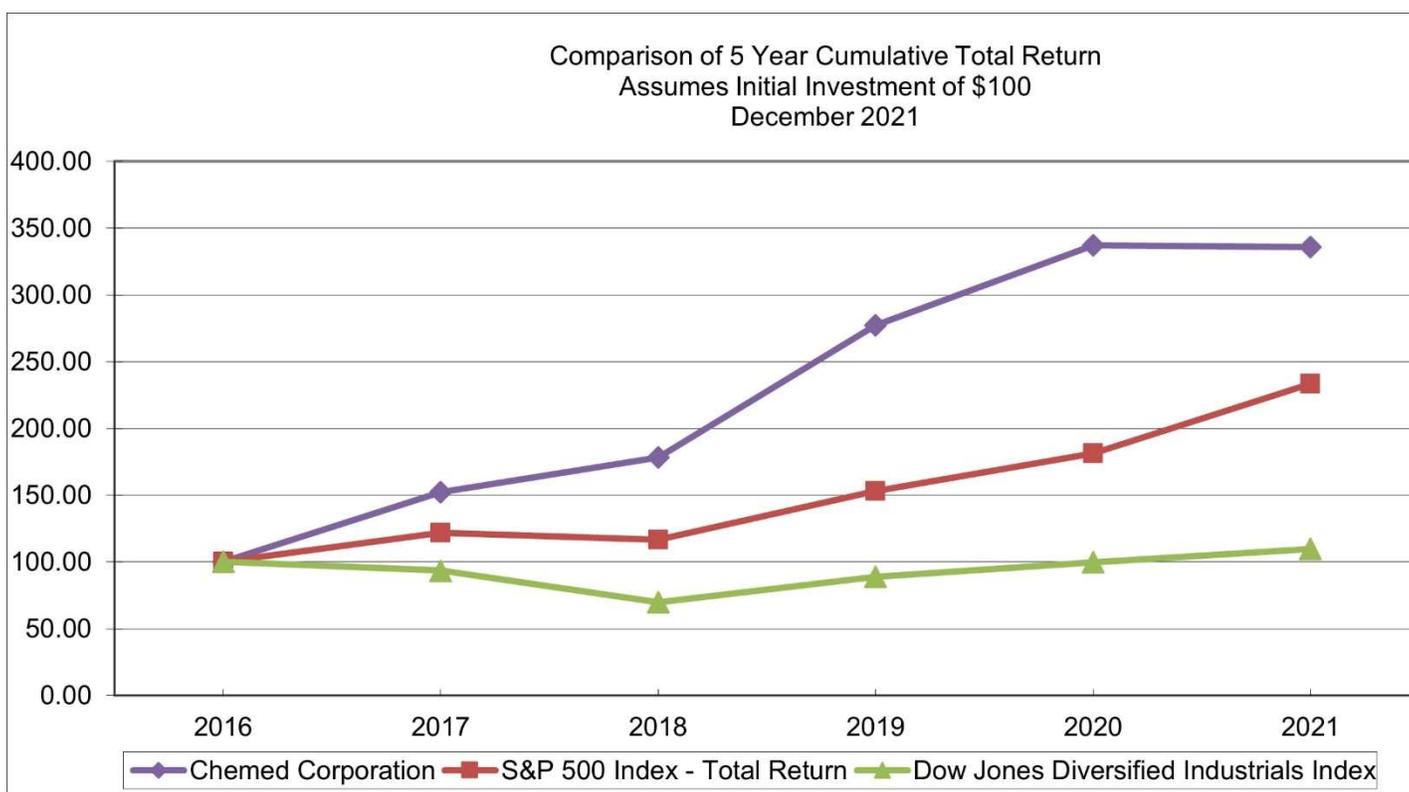
OPERATING STATISTICS	Three Months Ended December 31,		Year Ended December 31,	
	2021	2020	2021	2020
Net revenue (\$000)				
Homecare	\$ 272,949	\$ 279,410	\$ 1,069,766	\$ 1,106,358
Inpatient	27,291	28,973	113,187	114,956
Continuous care	20,680	30,175	94,338	136,011
Other	2,902	2,984	12,142	11,164
Subtotal	<u>\$ 323,822</u>	<u>\$ 341,542</u>	<u>\$ 1,289,433</u>	<u>\$ 1,368,489</u>
Room and board, net	(2,609)	(2,858)	(10,060)	(12,174)
Contractual allowances	(2,101)	(3,994)	(11,530)	(14,970)
Medicare cap allowance	(3,000)	(2,500)	(6,597)	(6,678)
Total	<u>\$ 316,112</u>	<u>\$ 332,190</u>	<u>\$ 1,261,246</u>	<u>\$ 1,334,667</u>
Net revenue as a percent of total before Medicare cap allowance				
Homecare	84.3%	81.8%	83.0%	80.8%
Inpatient	8.4	8.5	8.8	8.4
Continuous care	6.4	8.8	7.3	9.9
Other	0.9	0.9	0.9	0.9
Subtotal	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Room and board, net	(0.9)	(0.8)	(0.8)	(0.9)
Contractual allowances	(0.6)	(1.2)	(0.9)	(1.1)
Medicare cap allowance	(0.9)	(0.7)	(0.5)	(0.5)
Total	<u>97.6%</u>	<u>97.3%</u>	<u>97.8%</u>	<u>97.5%</u>
Days of Care				
Homecare	1,338,955	1,404,532	5,347,170	5,597,213
Nursing home	257,416	253,261	993,322	1,097,493
Respite	5,894	4,971	21,403	20,387
Subtotal routine homecare and respite	<u>1,602,265</u>	<u>1,662,764</u>	<u>6,361,895</u>	<u>6,715,093</u>
Inpatient	25,556	27,811	107,685	112,718
Continuous care	22,154	31,493	101,539	141,693
Total	<u>1,649,975</u>	<u>1,722,068</u>	<u>6,571,119</u>	<u>6,969,504</u>
Number of days in relevant time period	92	92	365	366
Average daily census ("ADC") (days)				
Homecare	14,554	15,267	14,649	15,293
Nursing home	2,798	2,753	2,721	2,999
Respite	64	54	59	55
Subtotal routine homecare and respite	<u>17,416</u>	<u>18,074</u>	<u>17,429</u>	<u>18,347</u>
Inpatient	278	302	295	308
Continuous care	241	342	279	387
Total	<u>17,935</u>	<u>18,718</u>	<u>18,003</u>	<u>19,042</u>
Total Admissions	16,250	17,960	68,823	71,328
Total Discharges	16,684	18,570	69,411	72,009
Average length of stay (days)	97.9	97.2	95.7	94.0
Median length of stay (days)	15.0	14.0	13.0	14.0
ADC by major diagnosis				
Cerebro	36.5%	35.5%	36.7%	35.8%
Neurological	23.0	22.4	22.6	21.9
Cancer	11.5	12.3	11.9	12.5
Cardio	15.6	15.9	15.5	15.8
Respiratory	7.5	7.9	7.5	8.1
Other	5.9	6.0	5.8	5.9
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Admissions by major diagnosis				
Cerebro	22.5%	20.9%	21.5%	21.1%
Neurological	12.7	12.6	12.3	12.9
Cancer	26.6	26.7	26.9	27.6
Cardio	14.8	13.8	14.5	14.3
Respiratory	11.0	10.4	10.9	10.6
Other	12.4	15.6	13.9	13.5
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Bad debt expense as a percent of revenues	0.7 %	1.2 %	0.9 %	1.1 %
Accounts receivable --Days of revenue outstanding- excluding unapplied Medicare payments	33.8	36.0	N.A.	N.A.
Accounts receivable--Days of revenue outstanding- including unapplied Medicare payments	28.1	25.6	N.A.	N.A.

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

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

**Comparative Stock Performance**

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, 2016, to December 31, 2021, assuming dividend reinvestment, and (B) the difference between the Company’s share price at December 31, 2016 and December 31, 2021; by (ii) the share price at December 31, 2016) 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	2016	2017	2018	2019	2020	2021
<b>Chemed Corporation</b>	<b>100.00</b>	<b>152.32</b>	<b>178.23</b>	<b>277.30</b>	<b>337.17</b>	<b>335.90</b>
<b>S&amp;P 500</b>	<b>100.00</b>	<b>121.83</b>	<b>116.49</b>	<b>153.17</b>	<b>181.35</b>	<b>233.41</b>
<b>Dow Jones Diversified Industrials</b>	<b>100.00</b>	<b>93.41</b>	<b>69.98</b>	<b>88.80</b>	<b>99.85</b>	<b>109.82</b>

## **EXHIBIT 7**

Disclosures/State Riders

## GUARANTEE OF PERFORMANCE

For value received, Chemed Corporation, a Delaware corporation located at 2600 Chemed Center, 255 East Fifth Street, Cincinnati, Ohio 45202-4726, absolutely and unconditionally guarantees the performance by its subsidiary, Roto-Rooter Corporation, an Iowa corporation located at 300 Ashworth Road, West Des Moines, Iowa 50265 (the "Franchisor"), of all the Franchisor's obligations under its franchise registrations in states requiring the registration of the offer and sale of its franchises (the "Franchise Registrations") and under its Franchise Agreements and related agreements entered into after the date written below, as the same may hereafter be amended, modified, renewed, or extended from time to time (the "Franchise Documents"). This guarantee with respect to such Franchise Registrations and Franchise Documents shall continue in force until all obligations of the Franchisor under said Franchise Registrations and Franchise Documents with respect to its franchisees shall have been satisfied or until the Franchisor's liability to said franchisees under said Franchise Registrations and Franchise Documents have been completely discharged, whichever occurs first. Chemed Corporation shall not be discharged from liability hereunder as long as any claim by said franchisees against the Franchisor remains outstanding. Notice of acceptance is waived. Notice of default on the part of the Franchisor is not waived. This guarantee shall be binding on Chemed Corporation, its successors, assigns and its legal representatives. This guarantee shall not apply with respect to any franchisees who acquire their franchises from the Franchisor at any time after the audited financial statements of Chemed Corporation no longer are included in the Franchisor's Franchise Disclosure Document.

**IN WITNESS WHEREOF**, Chemed Corporation has, by a duly authorized officer, executed this guarantee on this 10<sup>th</sup> day of March, 2022.

**CHEMED CORPORATION**

By: \_\_\_\_\_

Title: \_\_\_\_\_

  
President and CEO

**ADDITIONAL DISCLOSURES FOR THE  
MULTISTATE FRANCHISE DISCLOSURE DOCUMENT OF  
ROTO-ROOTER CORPORATION**

The following are additional disclosures for the Multistate Franchise Disclosure Document of ROTO-ROOTER CORPORATION required by various state franchise laws. Each provision of these additional disclosures will not apply unless, with respect to that provision, the jurisdictional requirements of the applicable state franchise registration and disclosure law are met independently without reference to these additional disclosures.

**MARYLAND**

1. The State of Maryland requires that all representations requiring prospective franchisees to assent to a release, estoppel or waiver of liability are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.
2. The State of Maryland permits a franchisee to bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.
3. The State of Maryland requires Item 17 be amended to include additional language:

Pursuant to COMAR 02.02.08.16L, the general release required as a condition of renewal, sale, and/or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within three (3) years after the grant of the Franchise.

## **MINNESOTA**

1. The following language is added as the last paragraph of Item 13:

The Minnesota Department of Commerce requires that we indemnify Minnesota franchisees against liability to third parties resulting from claims from third parties that your use of the Company's trademarks infringed trademark rights of the third party. We do not indemnify against the consequences of your use of our trademarks except in accordance with the requirements of the Franchise Agreement, and, as a condition to tender the defense of the claim to us. If we accept the tender of the defense, we have the right to compromise, settle or otherwise resolve the claim and to determine whether to appeal a final determination of the claim.

2. **Renewal, Termination, Transfer and Dispute Resolution**. The following is added at the end of the chart in Item 17:

With respect to franchises governed by Minnesota law, we will comply with Minn. Stat. Sec. 80C.14, Subds. 3, 4 and 5 which require, except in certain specified cases, that you be given 90 days' notice of termination (with 60 days to cure) of the Franchise Agreement and 180 days' notice for non-renewal of the Franchise Agreement.

Any release required as a condition of renewal or transfer/assignment will not apply to the extent prohibited by applicable law with respect to claims arising under Minn. Rule 2860.4400D.

## **NORTH DAKOTA**

1. The following is added to the end of the "Summary" section of Item 17(m), entitled **Conditions for our approval of transfer:**

However, any release required as a condition of assignment/transfer will not apply to the extent prohibited by the North Dakota Franchise Investment Law.

**RIDER TO THE  
ROTO-ROOTER CORPORATION  
FRANCHISE AGREEMENT  
REQUIRED BY THE STATE OF ILLINOIS**

RIDER made this \_\_\_\_\_ day of \_\_\_\_\_ effective  
\_\_\_\_\_ between ROTO-ROOTER CORPORATION ("Company") of West  
Des Moines, Iowa, and \_\_\_\_\_, ("Franchisee") of \_\_\_\_\_.

1. **Background.** Company and Franchisee are parties to that certain Franchise Agreement Number \_\_\_\_\_ dated \_\_\_\_\_ (the "Franchise Agreement") that has been executed concurrently with the execution of this Rider. This Rider is annexed to and forms part of the Franchise Agreement. This Rider is being executed because (a) Franchisee is a resident of the State of Illinois, and/or (b) the Roto-Rooter Business that Franchisee will operate under the Franchise Agreement is located within the State of Illinois and the offer or sale of the franchise for the Roto-Rooter Business Franchisee will operate under the Franchise Agreement was made in the State of Illinois.

2. **General Provisions.** The second and third paragraphs of Section 20 of the Franchise Agreement are deleted in their entirety and replaced with the following:

This Agreement, when accepted in West Des Moines, Iowa, by an authorized officer of Company, constitutes the entire Agreement and understanding between the parties and no other representation (except for those made in the Franchise Disclosure Document that Franchisee received from Company), promise or agreement, oral or otherwise, shall be of any force or effect.

This Agreement sets forth the entire agreement and understanding of the parties in respect of the transactions contemplated hereby and supersedes all prior agreements, arrangements and understandings related to the subject matter hereof. No representation, promise, inducement or statement of intention has been made by Company or Franchisee which is not embodied in this Agreement (except for the representations made in the Franchise Disclosure Document that Franchisee received from Company). Neither Company nor Franchisee has relied upon, or shall be bound by or liable for, any alleged representation (except for the representations made in the Franchise Disclosure Document that Franchisee received from Company), promise, inducement or statement of intention not so set forth.

IN WITNESS WHEREOF, the parties have executed or caused this Rider to be duly executed, all as of the day and year first above written.

ROTO-ROOTER CORPORATION

By \_\_\_\_\_  
(Signature and Title) - - Authorized Officer

If Franchisee is an Individual:

Franchisee:

\_\_\_\_\_

\_\_\_\_\_  
Name

If Franchisee is a Partnership:

Franchisee:

\_\_\_\_\_  
Partner, jointly or severally

\_\_\_\_\_  
Partner, jointly or severally

If Franchisee is a Corporation:

Franchisee:

\_\_\_\_\_  
Name of Corporation

By \_\_\_\_\_  
Authorized Officer

\_\_\_\_\_  
Title

GUARANTY

To Be Executed By Principal Stockholder(s) If Franchisee Is a Corporation.

The undersigned, principal stockholder(s) of the above Franchisee, for value received, hereby absolutely and unconditionally guarantee(s) full performance and payment when due of all of Franchisee's obligations to Company pursuant to the above Agreement.

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**RIDER TO THE  
ROTO-ROOTER CORPORATION  
FRANCHISE AGREEMENT  
REQUIRED BY THE STATE OF MARYLAND**

RIDER made this \_\_\_\_\_ day of \_\_\_\_\_ effective \_\_\_\_\_ between ROTO-ROOTER CORPORATION ("Company") of West Des Moines, Iowa, and \_\_\_\_\_, ("Franchisee") of \_\_\_\_\_.

1. **Background.** Company and Franchisee are parties to that certain Franchise Agreement Number \_\_\_\_\_ dated \_\_\_\_\_ (the "Franchise Agreement") that has been executed concurrently with the execution of this Rider. This Rider is annexed to and forms part of the Franchise Agreement. This Rider is being executed because (a) Franchisee is a resident of Maryland and the Roto-Rooter Business that Franchisee will operate under the Franchise Agreement is located within the State of Maryland; and/or (b) the offer or sale of the franchise for the Roto-Rooter Business Franchisee will operate under the Franchise Agreement was made in the State of Maryland.

2. **General Provisions.** The Franchise Agreement is amended to include the following in the State of Maryland:

All representations requiring prospective franchisees to assent to a release, estoppel or waiver of liability are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

The Franchise Agreement permits a franchisee to bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.

3. **Addition of Paragraphs.** The following paragraphs are hereby added to the end of the Franchise Agreement as Section 17:

Pursuant to COMAR 02.02.08.16L, the general release required as a condition of renewal, sale, and/or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within three (3) years after the grant of the franchise.

IN WITNESS WHEREOF, the parties have executed or caused this Rider to be duly executed, all as of the day and year first above written.

ROTO-ROOTER CORPORATION

By \_\_\_\_\_  
(Signature and Title) - - Authorized Officer

If Franchisee is an Individual:

Franchisee:

\_\_\_\_\_

\_\_\_\_\_  
Name

If Franchisee is a Partnership:

Franchisee:

\_\_\_\_\_  
Partner, jointly or severally

\_\_\_\_\_  
Partner, jointly or severally

If Franchisee is a Corporation:

Franchisee:

\_\_\_\_\_  
Name of Corporation

By \_\_\_\_\_  
Authorized Officer

\_\_\_\_\_  
Title

GUARANTY

To Be Executed By Principal Stockholder(s) If Franchisee Is a Corporation.

The undersigned, principal stockholder(s) of the above Franchisee, for value received, hereby absolutely and unconditionally guarantee(s) full performance and payment when due of all of Franchisee's obligations to Company pursuant to the above Agreement.

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**RIDER TO THE  
ROTO-ROOTER CORPORATION  
FRANCHISE AGREEMENT  
REQUIRED BY THE STATE OF MINNESOTA**

RIDER made this \_\_\_\_\_ day of \_\_\_\_\_ effective \_\_\_\_\_ between ROTO-ROOTER CORPORATION ("Company") of West Des Moines, Iowa, and \_\_\_\_\_, ("Franchisee") of \_\_\_\_\_.

1. **Background.** Company and Franchisee are parties to that certain Franchise Agreement Number \_\_\_\_\_ dated \_\_\_\_\_ (the "Franchise Agreement") that has been executed concurrently with the execution of this Rider. This Rider is annexed to and forms part of the Franchise Agreement. This Rider is being executed because (a) the Roto-Rooter Business that Franchisee will operate under the Franchise Agreement is located within the State of Minnesota; and/or (b) the offer or sale of the franchise for the Roto-Rooter Business Franchisee will operate under the Franchise Agreement was made in the State of Minnesota.

2. **Use of Trademarks and Service Marks.** The following language is added to the end of Section 8:

The Minnesota Department of Commerce requires that Company indemnify Minnesota franchisees against liability to third parties resulting from claims from third parties that Franchisee's use of Company's trademarks infringed trademark rights of the third party. Company does not indemnify against the consequences of Franchisee's use of Company's trademarks except in accordance with the requirements of this Agreement, and, as a condition to tender the defense of the claim to Company. If Company accepts the tender of the defense, Company has the right to compromise, settle or otherwise resolve the claim and to determine whether to appeal a final determination of the claim.

3. **Termination By Franchisee.** The following language is added to the end of Section 12:

However, with respect to franchises governed by Minnesota law, Company will comply with Minn. Stat. Sec. 80C.14, Subds. 3, 4 and 5 which require, except in certain specified cases, that a franchisee be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice of non-renewal of this Agreement.

4. **Assignment of Rights By Franchisee.** The following language is added to the end of Section 14(c)(iv):

Any release required as a condition of assignment/transfer will not apply to the extent prohibited by the Minnesota Franchises Law.

IN WITNESS WHEREOF, the parties have executed or caused this Rider to be duly executed, all as of the day and year first above written.

ROTO-ROOTER CORPORATION

By \_\_\_\_\_  
(Signature and Title) - - Authorized Officer

If Franchisee is an Individual:

Franchisee:

\_\_\_\_\_

\_\_\_\_\_  
Name

If Franchisee is a Partnership:

Franchisee:

\_\_\_\_\_  
Partner, jointly or severally

\_\_\_\_\_  
Partner, jointly or severally

If Franchisee is a Corporation:

Franchisee:

\_\_\_\_\_  
Name of Corporation

By \_\_\_\_\_  
Authorized Officer

\_\_\_\_\_  
Title

GUARANTY

To Be Executed By Principal Stockholder(s) If Franchisee Is a Corporation.

The undersigned, principal stockholder(s) of the above Franchisee, for value received, hereby absolutely and unconditionally guarantee(s) full performance and payment when due of all of Franchisee's obligations to Company pursuant to the above Agreement.

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**RIDER TO THE  
ROTO-ROOTER CORPORATION  
FRANCHISE AGREEMENT  
REQUIRED BY THE STATE OF NORTH DAKOTA**

RIDER made this \_\_\_\_\_ day of \_\_\_\_\_ effective  
\_\_\_\_\_ between ROTO-ROOTER CORPORATION ("Company") of West  
Des Moines, Iowa, and \_\_\_\_\_, ("Franchisee") of \_\_\_\_\_.

1. **Background.** Company and Franchisee are parties to that certain Franchise Agreement Number \_\_\_\_\_ dated \_\_\_\_\_ (the "Franchise Agreement") that has been executed concurrently with the execution of this Rider. This Rider is annexed to and forms part of the Franchise Agreement. This Rider is being executed because (a) Franchisee is a resident of North Dakota and the Roto-Rooter Business that Franchisee will operate under the Franchise Agreement is located within the State of North Dakota; and/or (b) the offer or sale of the franchise for the Roto-Rooter Business Franchisee will operate under the Franchise Agreement was made in the State of North Dakota.

2. **Assignment of Rights By Franchisee.** The following language is added to the end of Section 14(c)(iv):

; provided, however, that the Release Agreement shall not apply to the extent prohibited by the North Dakota Franchise Investment Law, as amended.

IN WITNESS WHEREOF, the parties have executed or caused this Rider to be duly executed, all as of the day and year first above written.

ROTO-ROOTER CORPORATION

By \_\_\_\_\_  
(Signature and Title) - - Authorized Officer

If Franchisee is an Individual:

Franchisee:

\_\_\_\_\_

\_\_\_\_\_  
Name

If Franchisee is a Partnership:

Franchisee:

\_\_\_\_\_  
Partner, jointly or severally

\_\_\_\_\_  
Partner, jointly or severally

If Franchisee is a Corporation:

Franchisee:

\_\_\_\_\_  
Name of Corporation

By \_\_\_\_\_  
Authorized Officer

\_\_\_\_\_  
Title

GUARANTY

To Be Executed By Principal Stockholder(s) If Franchisee Is a Corporation.

The undersigned, principal stockholder(s) of the above Franchisee, for value received, hereby absolutely and unconditionally guarantee(s) full performance and payment when due of all of Franchisee's obligations to Company pursuant to the above Agreement.

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**RIDER TO THE  
ROTO-ROOTER CORPORATION  
FRANCHISE AGREEMENT  
REQUIRED BY THE STATE OF WASHINGTON**

RIDER made this \_\_\_\_\_ day of \_\_\_\_\_ effective \_\_\_\_\_ between ROTO-ROOTER CORPORATION ("Company") of West Des Moines, Iowa, and \_\_\_\_\_, ("Franchisee") of \_\_\_\_\_.

1. **Background.** Company and Franchisee are parties to that certain Franchise Agreement Number \_\_\_\_\_ dated \_\_\_\_\_ (the "Franchise Agreement") that has been executed concurrently with the execution of this Rider. This Rider is annexed to and forms part of the Franchise Agreement. This Rider is being executed because (a) the Roto-Rooter Business that Franchisee will operate under the Franchise Agreement is located within the State of Washington; and/or (b) Franchisee is a resident of Washington; and/or (c) the offer or sale of the franchise for the Roto-Rooter Business Franchisee will operate under the Franchise Agreement was made in the State of Washington.

2. **Addition of Paragraphs.** The following paragraphs are hereby added to the end of the Franchise Agreement as Section 21:

In recognition of the requirements by the Washington Franchise Investment Protection Act, as amended (the "Act") and the rules and regulations promulgated thereunder, the Franchise shall be modified as follows:

The State of Washington has a statute, RCW 19.100.180, which might supersede this Agreement in Franchisee's relationship with Company, including the areas of termination and renewal of the Franchise. There also may be court decisions which might supersede this Agreement in Franchisee's relationship with Company, including the areas of termination and renewal of the Franchise.

In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site shall be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator at the time of the arbitration or mediation. In addition, if litigation is not precluded by the Franchise Agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.

In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW, shall prevail. RCW 19.100.180 may supersede the Franchise Agreement in your relationship with the franchisor

including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the Franchise Agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.

A release or waiver of rights executed by a Franchisee may not include rights under the Washington Franchise Investment Protection Act or any rule or order thereunder except when executed pursuant to a negotiated settlement after the Franchise Agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, or rights or remedies under the Act, such as a right to a jury trial, may not be enforceable.

Transfer fees are collectable to the extent that they reflect Company's reasonable estimated or actual costs in effecting a transfer.

Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee's earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor's earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the franchise agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington. RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the franchise agreement or elsewhere are void and unenforceable in Washington.

RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the Franchise Agreement or elsewhere are void and unenforceable in Washington.

The undersigned acknowledges receipt of this Rider.

IN WITNESS WHEREOF, the parties have executed or caused this Rider to be duly executed, all as of the day and year first above written.

ROTO-ROOTER CORPORATION

By \_\_\_\_\_  
(Signature and Title) - - Authorized Officer

If Franchisee is an Individual:

Franchisee:

\_\_\_\_\_

\_\_\_\_\_

Name

If Franchisee is a Partnership:

Franchisee:

\_\_\_\_\_

Partner, jointly or severally

\_\_\_\_\_

Partner, jointly or severally

If Franchisee is a Corporation:

Franchisee:

\_\_\_\_\_

Name of Corporation

By \_\_\_\_\_  
Authorized Officer

\_\_\_\_\_

Title

GUARANTY

To Be Executed By Principal Stockholder(s) If Franchisee Is a Corporation.

The undersigned, principal stockholder(s) of the above Franchisee, for value received, hereby absolutely and unconditionally guarantee(s) full performance and payment when due of all of Franchisee's obligations to Company pursuant to the above Agreement.

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## **EXHIBIT 8**

State Effective Dates

## STATE EFFECTIVE DATES

The following states require that the Franchise Disclosure Document be registered or filed with the state, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin.

This Franchise Disclosure Document is registered, on file or exempt from registration in the following states having franchise registration and disclosure laws, with the following effective dates:

California	Pending
Hawaii	Pending
Illinois	Pending
Indiana	Pending
Maryland	Pending
Michigan	Pending
Minnesota	Pending
New York	Pending
North Dakota	Pending
Rhode Island	Pending
South Dakota	Pending
Virginia	Pending
Washington	Pending
Wisconsin	Pending

Other states may require registration, filing, or exemption of a franchise under other laws, such as those that regulate the offer and sale of business opportunities or seller-assisted marketing plans.

## **EXHIBIT 9**

Receipts

## RECEIPT

THIS DISCLOSURE DOCUMENT SUMMARIZES CERTAIN PROVISIONS OF THE FRANCHISE AGREEMENT AND OTHER INFORMATION IN PLAIN LANGUAGE. READ THIS DISCLOSURE DOCUMENT AND ALL AGREEMENTS CAREFULLY.

IF ROTO-ROOTER CORPORATION OFFERS YOU A FRANCHISE, IT MUST PROVIDE THIS DISCLOSURE DOCUMENT TO YOU BY THE EARLIEST OF:

FOURTEEN CALENDAR DAYS BEFORE SIGNING OF A BINDING AGREEMENT; OR

FOURTEEN CALENDAR DAYS BEFORE ANY PAYMENT TO US.

YOU MUST ALSO RECEIVE A FRANCHISE AGREEMENT CONTAINING ALL MATERIAL TERMS AT LEAST SEVEN CALENDAR DAYS BEFORE YOU MAY SIGN THE FRANCHISE AGREEMENT.

IF ROTO-ROOTER CORPORATION DOES NOT DELIVER THIS DISCLOSURE DOCUMENT ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT, OR A MATERIAL OMISSION, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, D.C. 20580 AND THE APPROPRIATE STATE AGENCY IDENTIFIED ON EXHIBIT 1.

Roto-Rooter Corporation authorizes the respective state agencies identified on Exhibit 1 to receive service of process for Roto-Rooter Corporation in the particular state. I have received a Franchise Disclosure Document dated March 31, 2022. This disclosure document included the following Exhibits:

- 1 List of State Agencies/Agents for Service of Process
- 2 Franchise Agreements and Rider
- 3 Tables of Contents - Manuals
- 4 List of Franchisees
- 5 Franchisees Who Have Left the System
- 6 Financial Statements

\_\_\_\_\_  
Franchisee

\_\_\_\_\_  
Date

Franchise Seller Offering the Franchise

Debbie Smith

Roto-Rooter Corporation

255 East Fifth Street, Suite 2500

Cincinnati, OH 45202

Ph: (513) 762-6537

## RECEIPT

THIS DISCLOSURE DOCUMENT SUMMARIZES CERTAIN PROVISIONS OF THE FRANCHISE AGREEMENT AND OTHER INFORMATION IN PLAIN LANGUAGE. READ THIS DISCLOSURE DOCUMENT AND ALL AGREEMENTS CAREFULLY.

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FOURTEEN CALENDAR DAYS BEFORE ANY PAYMENT TO US.

YOU MUST ALSO RECEIVE A FRANCHISE AGREEMENT CONTAINING ALL MATERIAL TERMS AT LEAST SEVEN CALENDAR DAYS BEFORE YOU MAY SIGN THE FRANCHISE AGREEMENT.

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- 5 Franchisees Who Have Left the System
- 6 Financial Statements

\_\_\_\_\_  
Franchisee

\_\_\_\_\_  
Date

Franchise Seller Offering the Franchise

Debbie Smith

Roto-Rooter Corporation

255 East Fifth Street, Suite 2500

Cincinnati, OH 45202

Ph: (513) 762-6537