

CHEMED CORP
Form 10-Q
October 27, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

Quarterly Report Under Section 13 or 15 (d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended September 30, 2017

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

Commission File Number: 1-8351

CHEMED CORPORATION
(Exact name of registrant as specified in its charter)

Delaware 31-0791746
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

255 E. Fifth Street, Suite 2600, Cincinnati, Ohio 45202
(Address of principal executive offices) (Zip code)

(513) 762-6690
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended the extended transition period for complying with a new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Amount | Date |
|-----------------------------|-------------------|--------------------|
| Capital Stock \$1 Par Value | 15,966,003 Shares | September 30, 2017 |

-1-

CHEMED CORPORATION AND
SUBSIDIARY COMPANIES

Index

| | <u>Page No.</u> |
|-------------------------|-----------------|
| PART I. | |
| FINANCIAL | |
| INFORMATION: | |
| Item 1. Financial | |
| Statements | |
| <u>Unaudited</u> | |
| <u>Consolidated</u> | |
| <u>Balance Sheets -</u> | |
| <u>September 30,</u> | |
| <u>2017 and</u> | 3 |
| <u>December 31,</u> | |
| <u>2016</u> | |
| | |
| <u>Unaudited</u> | |
| <u>Consolidated</u> | |
| <u>Statements of</u> | |
| <u>Income -</u> | |
| <u>Three and nine</u> | |
| <u>months ended</u> | 4 |
| <u>September 30,</u> | |
| <u>2017 and 2016</u> | |
| | |
| <u>Unaudited</u> | |
| <u>Consolidated</u> | |
| <u>Statements of</u> | |
| <u>Cash Flows -</u> | |
| <u>Nine months</u> | |
| <u>ended</u> | 5 |
| <u>September 30,</u> | |
| <u>2017 and 2016</u> | |
| | |
| <u>Notes to</u> | |
| <u>Unaudited</u> | |
| <u>Consolidated</u> | 6 |
| <u>Financial</u> | |
| <u>Statements</u> | |
| | |
| Item 2. | 16 |
| <u>Management's</u> | |
| <u>Discussion and</u> | |
| <u>Analysis of</u> | |
| <u>Financial</u> | |

Condition and
Results of
Operations

Item 3.
Quantitative and
Qualitative 34
Disclosures about
Market Risk

Item 4. Controls 34
and Procedures

PART II.
OTHER
INFORMATION

Item 1. Legal 34
Proceedings

Item 1A. Risk 34
Factors

Item 2.
Unregistered
Sales of Equity 35
Securities and
Use of Proceeds

Item 3. Defaults
Upon Senior 35
Securities

Item 4. Mine
Safety 35
Disclosures

Item 5. Other 35
Information

Item 6. Exhibits 36

EX - 31.1

EX - 31.2

EX - 31.3

EX - 32.1

EX - 32.2

EX - 32.3

EX - 101.INS

EX - 101.SCH

EX - 101.CAL

EX - 101.DEF

EX - 101.LAB

EX – 101.PRE

-2-

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CHEMED CORPORATION AND SUBSIDIARY COMPANIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

| | September 30, 2017 | December 31, 2016 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$18,871 | \$15,310 |
| Accounts receivable less allowances of \$14,997 (2016 - \$14,236) | 91,483 | 132,021 |
| Inventories | 5,658 | 5,755 |
| Prepaid income taxes | 3,621 | 3,709 |
| Prepaid expenses | 15,678 | 13,105 |
| Total current assets | 135,311 | 169,900 |
| Investments of deferred compensation plans | 60,445 | 54,389 |
| Properties and equipment, at cost, less accumulated depreciation of \$227,036 (2016 - \$211,290) | 143,148 | 121,302 |
| Identifiable intangible assets less accumulated amortization of \$32,862 (2016 - \$33,225) | 54,793 | 55,065 |
| Goodwill | 473,024 | 472,366 |
| Deferred income taxes | 21,893 | 8 |
| Other assets | 6,845 | 7,029 |
| Total Assets | \$895,459 | \$880,059 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$34,752 | \$39,586 |
| Current portion of long-term debt | 10,000 | 8,750 |
| Income taxes | 12,349 | - |
| Accrued insurance | 44,584 | 47,960 |
| Accrued compensation | 53,857 | 53,979 |
| Accrued legal | 91,450 | 1,805 |
| Other current liabilities | 22,382 | 19,752 |
| Total current liabilities | 269,374 | 171,832 |
| Deferred income taxes | - | 14,291 |
| Long-term debt | 72,500 | 100,000 |
| Deferred compensation liabilities | 59,389 | 54,288 |
| Other liabilities | 16,494 | 15,549 |
| Total Liabilities | 417,757 | 355,960 |
| Commitments and contingencies (Note 11) | | |
| STOCKHOLDERS' EQUITY | | |
| Capital stock - authorized 80,000,000 shares \$1 par; issued 34,513,535 shares (2016 - 34,270,104 shares) | 34,514 | 34,270 |
| Paid-in capital | 668,573 | 639,703 |
| Retained earnings | 988,895 | 958,149 |
| Treasury stock - 18,632,867 shares (2016 - 18,083,527) | (1,216,509) | (1,110,536) |
| Deferred compensation payable in Company stock | 2,229 | 2,513 |

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| | | |
|--|-----------|-----------|
| Total Stockholders' Equity | 477,702 | 524,099 |
| Total Liabilities and Stockholders' Equity | \$895,459 | \$880,059 |

See accompanying notes to unaudited consolidated financial statements.

-3-

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-----------|-------------------|-------------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Service revenues and sales | \$417,444 | \$392,607 | \$1,238,367 | \$1,173,405 |
| Cost of services provided and goods sold (excluding depreciation) | 288,047 | 281,658 | 859,039 | 836,348 |
| Selling, general and administrative expenses | 66,919 | 59,373 | 205,031 | 181,046 |
| Depreciation | 8,819 | 8,614 | 26,545 | 25,619 |
| Amortization | 33 | 91 | 111 | 274 |
| Other operating expenses/(income) | (371) | - | 91,138 | 4,491 |
| Total costs and expenses | 363,447 | 349,736 | 1,181,864 | 1,047,778 |
| Income from operations | 53,997 | 42,871 | 56,503 | 125,627 |
| Interest expense | (1,048) | (1,018) | (3,164) | (2,831) |
| Other income - net | 1,323 | 1,640 | 5,439 | 1,933 |
| Income before income taxes | 54,272 | 43,493 | 58,778 | 124,729 |
| Income taxes | (18,835) | (16,664) | (15,153) | (48,175) |
| Net income | \$35,437 | \$26,829 | \$43,625 | \$76,554 |
| Earnings Per Share | | | | |
| Net income | \$2.22 | \$1.66 | \$2.72 | \$4.66 |
| Average number of shares outstanding | 15,976 | 16,166 | 16,068 | 16,443 |
| Diluted Earnings Per Share | | | | |
| Net income | \$2.13 | \$1.62 | \$2.60 | \$4.54 |
| Average number of shares outstanding | 16,676 | 16,559 | 16,763 | 16,851 |
| Cash Dividends Per Share | \$0.28 | \$0.26 | \$0.80 | \$0.74 |

See accompanying notes to unaudited consolidated financial statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

| | Nine Months Ended September 30, | |
|--|------------------------------------|-----------|
| | 2017 | 2016 |
| Cash Flows from Operating Activities | | |
| Net income | \$43,625 | \$76,554 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 26,656 | 25,893 |
| Provision for uncollectible accounts receivable | 12,953 | 12,132 |
| Stock option expense | 7,738 | 6,259 |
| Benefit for deferred income taxes | (36,175) | (5,530) |
| Potential litigation settlement | 90,000 | - |
| Noncash early retirement expense | - | 1,747 |
| Amortization of restricted stock awards | 933 | 1,415 |
| Noncash directors' compensation | 766 | 541 |
| Noncash long-term incentive compensation | 2,888 | 837 |
| Amortization of debt issuance costs | 387 | 390 |
| Changes in operating assets and liabilities: | | |
| Decrease in accounts receivable | 27,534 | 8,061 |
| Decrease in inventories | 97 | 213 |
| Increase in prepaid expenses | (2,573) | (1,646) |
| Increase/(decrease) in accounts payable and other current liabilities | 2,448 | (5,471) |
| Increase in income taxes | 12,432 | 8,587 |
| Increase in other assets | (6,238) | (5,694) |
| Increase in other liabilities | 6,046 | 6,835 |
| Excess tax benefit on share-based compensation | - | (2,974) |
| Other sources | 1,472 | 204 |
| Net cash provided by operating activities | 190,989 | 128,353 |
| Cash Flows from Investing Activities | | |
| Capital expenditures | (50,247) | (29,708) |
| Business combinations | (525) | - |
| Other sources/(uses) | 116 | (114) |
| Net cash used by investing activities | (50,656) | (29,822) |
| Cash Flows from Financing Activities | | |
| Payments on revolving line of credit | (203,700) | (85,200) |
| Proceeds from revolving line of credit | 183,700 | 110,200 |
| Purchases of treasury stock | (94,640) | (102,313) |
| Dividends paid | (12,879) | (12,215) |
| Proceeds from exercise of stock options | 11,625 | 4,625 |
| Change in cash overdrafts payable | (8,139) | 2,092 |
| Capital stock surrendered to pay taxes on stock-based compensation | (7,637) | (7,051) |
| Payments on other long-term debt | (6,250) | (5,625) |
| Excess tax benefit on share-based compensation | - | 2,974 |
| Other sources | 1,148 | 540 |
| Net cash used by financing activities | (136,772) | (91,973) |
| Increase in Cash and Cash Equivalents | 3,561 | 6,558 |

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| | | |
|--|----------|----------|
| Cash and cash equivalents at beginning of year | 15,310 | 14,727 |
| Cash and cash equivalents at end of period | \$18,871 | \$21,285 |

See accompanying notes to unaudited consolidated financial statements.

-5-

CHEMED CORPORATION AND SUBSIDIARY COMPANIES

Notes to Unaudited Consolidated Financial Statements

1. Basis of Presentation

As used herein, the terms "We," "Company" and "Chemed" refer to Chemed Corporation or Chemed Corporation and its consolidated subsidiaries.

We have prepared the accompanying unaudited consolidated financial statements of Chemed in accordance with Rule 10-01 of SEC Regulation S-X. Consequently, we have omitted certain disclosures required under generally accepted accounting principles in the United States ("GAAP") for complete financial statements. The December 31, 2016 balance sheet data were derived from audited financial statements but do not include all disclosures required by GAAP.

However, in our opinion, the financial statements presented herein contain all adjustments, consisting only of normal recurring adjustments, necessary to state fairly our financial position, results of operations and cash flows. These financial statements are prepared on the same basis as and should be read in conjunction with the audited Consolidated Financial Statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2016.

EARNINGS PER SHARE

In March 2016, the FASB issued Accounting Standards Update "ASU No. 2016-09 - Compensation – Stock Compensation" which is part of the FASB's Simplification Initiative. The object of this initiative is to identify, evaluate, and improve areas of GAAP. The areas of simplification in this initiative involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance was effective for fiscal years beginning after December 15, 2016. We adopted the applicable provisions of ASU 2016-09 on a prospective basis. The impact of this ASU on our financial statements for the quarter ended September 30, 2017 was to decrease our income tax expense by \$1.8 million as the result of excess tax benefits on stock based compensation being recorded on the statements of income. This, combined with the required change in diluted share count, resulted in an increase to basic and diluted earnings per share of \$0.11 and \$0.09, respectively. The impact of this ASU on our financial statements for the nine months ended September 30, 2017 was to decrease our income tax expense by \$8.1 million as the result of excess tax benefits on stock based compensation being recorded on the statements of income. This, combined with the required change in diluted share count, resulted in an increase to basic earnings per share by \$0.51 and an increase to diluted earnings per share by \$0.46.

INCOME TAXES

The effective tax rate for the three and nine month periods ended September 30, 2017 was 34.7% and 25.8%, respectively. These rates differ from the US statutory tax rates primarily as the result of the adoption of ASU 2016-09 described above.

2. Revenue Recognition

Both the VITAS segment and the Roto-Rooter segment recognize service revenues and sales when the earnings process has been completed. Generally, this occurs when services are provided or products are shipped. VITAS recognizes revenue at the estimated realizable amount due from third-party payers. Medicare payments are subject to certain limitations, as described below.

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 they are likely to exceed the annual per-beneficiary Medicare cap ("Medicare cap"). Should we determine that revenues for a program are likely to exceed the Medicare cap based on projected trends, we attempt to institute corrective action to influence the patient mix or to increase patient

admissions. However, should we project our corrective action will not prevent that program from exceeding its Medicare cap, we estimate the amount of revenue recognized during the period that will require repayment to the Federal government under the Medicare cap and record the amount as a reduction to patient revenue.

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 \$2.3 million is owed for Medicare cap in three programs arising during the 2013, 2014 and 2015 measurement periods. The amounts were 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 demand the \$2.3 million under their “as if” methodology. We have not recorded a reserve as of September 30, 2017 for \$480,000 of the potential exposure. We have appealed CMS’s methodology change with the appropriate regulatory appeal board.

-6-

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During the three and nine months ended September 30, 2016, respectively, \$228,000 in Medicare cap was recorded for one program's projected 2015 measurement period liability

There was no Medicare cap recorded for the quarter ended September 30, 2017. During the nine months ended September 30, 2017, we recorded \$247,000 for two programs cap liability for the 2013, 2014 and 2015 measurement periods of the amount recorded, \$105,000 relates to the sequestration issue described above.

Shown below is the Medicare cap liability activity for the fiscal periods ended (in thousands):

| | September 30, | |
|------------------------------|---------------|---------|
| | 2017 | 2016 |
| Beginning balance January 1, | \$235 | \$1,165 |
| Prior measurement periods | 247 | 228 |
| Payments | (482) | (1,158) |
| Ending balance September 30, | \$- | \$235 |

Vitas provides charity care, in certain circumstances, to patients without charge when management of the hospice program determines, at the time services are performed, that the patient cannot afford payment. There is no revenue or associated accounts receivable in the accompanying consolidated financial statements related to charity care. 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. The cost of charity care is as follows (in thousands):

| Three months ended September 30, | | Nine months ended September 30, | |
|----------------------------------|---------|---------------------------------|---------|
| 2017 | 2016 | 2017 | 2016 |
| \$1,906 | \$1,711 | \$5,603 | \$5,231 |

3. Segments

Service revenues and sales and after-tax earnings by business segment are as follows (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|-----------------------------------|----------------------------------|-----------|---------------------------------|-------------|
| | 2017 | 2016 | 2017 | 2016 |
| <u>Service Revenues and Sales</u> | | | | |
| VITAS | \$288,951 | \$282,865 | \$855,977 | \$839,131 |
| Roto-Rooter | 128,493 | 109,742 | 382,390 | 334,274 |
| Total | \$417,444 | \$392,607 | \$1,238,367 | \$1,173,405 |
| <u>After-tax Income/(Loss)</u> | | | | |
| VITAS | \$26,454 | \$20,903 | \$14,797 | \$58,538 |
| Roto-Rooter | 16,034 | 12,855 | 47,716 | 39,216 |
| Total | 42,488 | 33,758 | 62,513 | 97,754 |
| Corporate | (7,051) | (6,929) | (18,888) | (21,200) |
| Net income | \$35,437 | \$26,829 | \$43,625 | \$76,554 |

We report corporate administrative expenses and unallocated investing and financing income and expense not directly related to either segment as "Corporate".

4. Earnings per Share

Earnings per share (“EPS”) are computed using the weighted average number of shares of capital stock outstanding. Earnings and diluted earnings per share are computed as follows (in thousands, except per share data):

| For the Three Months Ended September 30, | Net Income | | Earnings per Share |
|--|------------|--------|--------------------------|
| | Income | Shares | |
| 2017 | | | |
| Earnings | \$35,437 | 15,976 | \$ 2.22 |
| Dilutive stock options | - | 616 | |
| Nonvested stock awards | - | 84 | |
| Diluted earnings | \$35,437 | 16,676 | \$ 2.13 |
| 2016 | | | |
| Earnings | \$26,829 | 16,166 | \$ 1.66 |
| Dilutive stock options | - | 294 | |
| Nonvested stock awards | - | 99 | |
| Diluted earnings | \$26,829 | 16,559 | \$ 1.62 |

| For the Nine Months Ended September 30, | Net Income | | Earnings per Share |
|---|------------|--------|--------------------------|
| | Income | Shares | |
| 2017 | | | |
| Earnings | \$43,625 | 16,068 | \$ 2.72 |
| Dilutive stock options | - | 609 | |
| Nonvested stock awards | - | 86 | |
| Diluted earnings | \$43,625 | 16,763 | \$ 2.60 |
| 2016 | | | |
| Earnings | \$76,554 | 16,443 | \$ 4.66 |
| Dilutive stock options | - | 296 | |
| Nonvested stock awards | - | 112 | |
| Diluted earnings | \$76,554 | 16,851 | \$ 4.54 |

For the three months ended September 30, 2017, no stock options and nonvested stock awards have been excluded in the calculation of diluted earnings per share because they would have been anti-dilutive.

For the nine month period ended September 30, 2017, there were 7,304 stock options excluded from the computation of diluted earnings per share because they would have been anti-dilutive.

For the three and nine month periods ended September 30, 2016, 418,000 stock options were excluded from the computation of diluted earnings per share because they would have been anti-dilutive.

5. Long-Term Debt

On June 30, 2014, we replaced our existing credit agreement with the Third Amended and Restated Credit Agreement (“2014 Credit Agreement”). Terms of the 2014 Credit Agreement consist of a five-year, \$350 million revolving credit

facility and a \$100 million term loan. The 2014 Credit Agreement has a floating interest rate that is generally LIBOR plus a tiered additional rate which varies based on our current leverage ratio. The interest rate as of September 30, 2017 is LIBOR plus 113 basis points.

-8-

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The debt outstanding as of September 30, 2017 consists of the following:

| | |
|-----------------------------------|----------|
| Revolver | \$5,000 |
| Term loan | 77,500 |
| Total | 82,500 |
| Current portion of long-term debt | (10,000) |
| Long-term debt | \$72,500 |

Scheduled principal payments of the term loan are as follows:

| | |
|------|----------|
| 2017 | \$2,500 |
| 2018 | 10,000 |
| 2019 | 65,000 |
| | \$77,500 |

The 2014 Credit Agreement contains the following quarterly financial covenants:

| Description | Requirement |
|--|------------------|
| Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA) | < 3.50 to 1.00 |
| Fixed Charge Coverage Ratio (Consolidated Free Cash Flow/Consolidated Fixed Charges) | > 1.50 to 1.00 |
| Annual Operating Lease Commitment | < \$50.0 million |

We are in compliance with all debt covenants as of September 30, 2017. We have issued \$35.6 million in standby letters of credit as of September 30, 2017 mainly for insurance purposes. Issued letters of credit reduce our available credit under the 2014 Credit Agreement. As of September 30, 2017, we have approximately \$309.4 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility.

6. Other Operating Income/(Expenses)

| | Three months | | Nine months | |
|---|--------------|-----------|-------------|-----------|
| | ended | ended | ended | ended |
| | September | September | September | September |
| | 30, | 30, | 30, | 30, |
| | 2017 | 2016 | 2017 | 2016 |
| Potential litigation settlement | \$- | \$ - | \$90,000 | \$- |
| Program closure (income)/expenses | (371) | - | 1,138 | - |
| Retirement expenses | - | - | - | 4,491 |
| Total other operating (income)/expenses | \$(371) | \$ - | \$91,138 | \$4,491 |

During the three and nine months ended September 30, 2017, the Company recorded a credit for recovery of previously expensed costs of \$371,000 and a net expense of \$1.1 million, respectively, related to the closure of three Alabama programs at VITAS.

During the nine months ended September 30, 2017, the Company recorded \$90 million for a potential litigation settlement. See footnote 11 for further discussion.

During the nine months ended September 30, 2016, the Company recorded early retirement related costs and accelerated stock-based compensation expense of approximately \$4.5 million pretax and \$2.8 million after-tax, related to the early retirement of VITAS' former Chief Executive Officer.

-9-

7. Other Income – Net

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|--|----------|---------------------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| Market value adjustment on assets held in deferred compensation trust | \$ 1,417 | \$ 1,656 | \$ 5,619 | \$ 1,857 |
| Loss on disposal of property and equipment | (146) | (134) | (481) | (224) |
| Interest income | 51 | 119 | 297 | 301 |
| Other - net | 1 | (1) | 4 | (1) |
| Total other income - net | \$ 1,323 | \$ 1,640 | \$ 5,439 | \$ 1,933 |

8. Stock-Based Compensation Plans

On February 17, 2017, the Compensation/Incentive Committee of the Board of Directors (“CIC”) granted 7,304 Performance Stock Units (“PSUs”) contingent upon the achievement of certain total shareholders return (“TSR”) targets as compared to the TSR of a group of peer companies for the three-year period ending December 31, 2019, the date at which such awards vest. The cumulative compensation cost of the TSR-based PSU award to be recorded over the three year service period is \$1.7 million.

On February 17, 2017, the CIC also granted 7,304 PSUs contingent upon the achievement of certain earnings per share (“EPS”) targets for the three-year period ending December 31, 2019. At the end of each reporting period, the Company estimates the number of shares that it believes will ultimately be earned and records that expense over the service period of the award. We currently estimate the cumulative compensation cost of the EPS-based PSUs to be recorded over the three year service period is \$1.3 million.

9. Independent Contractor Operations

The Roto-Rooter segment sublicenses with 69 independent contractors to operate certain plumbing repair, excavation, water restoration and drain cleaning businesses in lesser-populated areas of the United States and Canada. We had notes receivable from our independent contractors as of September 30, 2017 totaling \$1.5 million (December 31, 2016 - \$1.7 million). In most cases these loans are fully or partially secured by equipment owned by the contractor. The interest rates on the loans range from 0% to 7% per annum and the remaining terms of the loans range from less than 3 months to approximately 5 years at September 30, 2017. We recorded the following from our independent contractors (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---------------|--|----------|------------------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Revenues | \$ 10,455 | \$ 9,823 | \$ 32,632 | \$ 29,451 |
| Pretax income | 6,311 | 5,835 | 19,742 | 18,015 |

10. Retirement Plans

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All of the Company's plans that provide retirement and similar benefits are defined contribution plans. These expenses include the impact of market gains and losses on assets held in deferred compensation plans and are recorded in selling, general and administrative expenses. Expenses for the Company's retirement and profit-sharing plans, excess benefit plans and other similar plans are as follows (in thousands):

| Three months | | Nine months ended | |
|-----------------|---------|-------------------|----------|
| ended September | | Nine 30, | |
| 2017 | 2016 | 2017 | 2016 |
| \$4,427 | \$4,423 | \$15,136 | \$10,809 |

-10-

11. 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, 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 with respect to U.S. v. Vitas, 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 May 2, 2013, the government filed a False Claims Act complaint against the Company and certain of its hospice-related subsidiaries in the U.S. District Court for the Western District of Missouri, United States v. VITAS Hospice Services, LLC, et al., No. 4:13-cv-00449-BCW (the "2013 Action"). Prior to that date, the Company received various qui tam lawsuits and subpoenas from the U.S. Department of Justice and OIG that have been previously disclosed. The 2013 Action alleges that, since at least 2002, VITAS, and since 2004, the Company, submitted or caused the submission of false claims to the Medicare program by (a) billing Medicare for continuous home care services when the patients were not eligible, the services were not provided, or the medical care was inappropriate, and (b) billing Medicare for patients who were not eligible for the Medicare hospice benefit because they did not have a life expectancy of six months or less if their illnesses ran their normal course. This complaint seeks treble damages, statutory penalties, and the costs of the action, plus interest. The defendants filed a motion to dismiss on September 24, 2013. On September 30, 2014, the Court denied the motion, except to the extent that claims were filed before July 24, 2002. On November 13, 2014, the government filed a Second Amended Complaint. The Second Amended Complaint changed and supplemented some of the allegations, but did not otherwise expand the causes of action or the nature of the relief sought against VITAS. VITAS filed its Answer to the Second Amended Complaint on August 11, 2015. Based on recent case developments, including recent mediation discussions with the U.S. Department of Justice, we believe it probable that this matter will be settled, to include payments of \$55.8 million after-tax (\$90.0 million pretax) including attorneys' fees. A final settlement will require the parties to resolve several outstanding issues, and to draft and negotiate definitive documentation. There can be no assurance that such a final definitive settlement will be reached on these, or other, terms. For additional procedural history of this litigation, please refer to our prior quarterly and annual filings. The costs incurred related to U.S. v. Vitas and related regulatory matters were \$935,000 and \$599,000 for the quarters ended September 30, 2017 and 2016, respectively. For the nine months ended September 30, 2017 and 2016, the net costs were \$5.2 million and \$4.1 million respectively.

Net income for the nine months ended September 30, 2017 includes the \$55.8 million of after-tax expense (\$90 million pre-tax) for the accrual of such potential litigation settlement. As required by GAAP, the Company accrues for contingent loss claims in its financial statements when it is probable that a liability has been incurred and the amount can be reasonably estimated.

The Company and certain current and former directors and officers are defendants in a case captioned In re Chemed Corp. Shareholder Derivative Litigation, No. 13 Civ. 1854 (LPS) (CJB) (D. Del.), which was consolidated on February 2, 2015.

On February 2, 2015, the Court appointed KBC Asset Management NV the sole lead plaintiff and its counsel, the sole lead and liaison counsel. On March 3, 2015, Lead Plaintiff KBC designated its Complaint as the operative complaint in the consolidated proceedings and defendants renewed a previously filed motion to dismiss those claims and allegations. The consolidated Complaint named fourteen individual defendants, together with the Company as nominal defendant. The Complaint alleges a claim for breach of fiduciary duty against the individual defendants for allegedly permitting the Company to submit false claims to the U.S. government. The Complaint seeks (a) a declaration that the individual defendants breached their fiduciary duties to the Company; (b) an order requiring those defendants to pay compensatory damages, restitution and exemplary damages, in unspecified amounts, to the

Company; (c) an order directing the Company to implement new policies and procedures; and (d) costs and disbursements incurred in bringing the action, including attorneys' fees. On May 12, 2016, the Court issued a Memorandum Order granting Chemed's motion to dismiss, and dismissing Lead Plaintiff KBC's Complaint without prejudice to KBC's opportunity to file within 30 days of the date of the Court's Order (i.e., by June 13, 2016) an amended Complaint addressing the deficiencies in its duty of loyalty claim. Lead Plaintiff KBC did not file an amended Complaint within the time specified by the Court.

-11-

However, on June 13, 2016, counsel for Chemed shareholder Michael Kvint filed a letter with the Court requesting a two-week extension to file a motion to substitute Mr. Kvint as lead plaintiff, in place of Lead Plaintiff KBC and to file an amended Complaint. Alternatively, counsel for Mr. Kvint requested that any dismissal of the action be with prejudice to KBC only. On June 14, 2016, Chemed filed a reply letter with the Court, reserving its rights to oppose any motion filed by Mr. Kvint and, if warranted, to oppose any other actions taken by Mr. Kvint to proceed with the action (including by filing an untimely amended Complaint). On June 21, 2016, the Court entered an Oral Order providing Mr. Kvint until June 30, 2016 to file a Motion to Substitute and Motion for Leave to File an Amended Complaint. On that date, Mr. Kvint filed, under seal, a Motion to Substitute Plaintiff and File Amended Complaint, and attached a Proposed Amended Complaint. Mr. Kvint's motion was fully briefed by the parties. On April 25, 2017, Magistrate Judge Burke issued a Report and Recommendation recommending that the Court permit Mr. Kvint to intervene as Lead Plaintiff and grant leave to amend the complaint to replead the duty of loyalty claim only. On May 16, 2017, Chief Judge Stark signed an Order adopting that Report and Recommendation. Plaintiff Kvint filed a Corrected Amended Complaint on May 30, 2017. On September 13, 2017, the Court entered an order dismissing with prejudice the claims against defendants Timothy S. O'Toole and Joel F. Gemunder and permitting Defendants to file a Motion to Dismiss the Corrected Amended Complaint on or before September 29, 2017, with Plaintiff's Answering Brief to be filed on or before December 1, 2017, and Defendants' Reply Brief to be filed on or before December 29, 2017. Defendants filed their Motion to Dismiss timely. As the Company has previously disclosed, the legal fees and costs associated with defending against this lawsuit are presently being paid by insurance. For additional procedural history of this litigation, please refer to our prior quarterly and annual filings.

Jordan Seper, ("Seper") a Registered Nurse at VITAS' Inland Empire program from May 12, 2014 to March 21, 2015, filed a lawsuit in San Francisco Superior Court on September 26, 2016. She alleged VITAS Healthcare Corp of CA ("VITAS CA") (1) failed to provide minimum wage for all hours worked; (2) failed to provide overtime for all hours worked; (3) failed to provide a second meal period; (4) failed to provide rest breaks; (5) failed to indemnify for necessary expenditures; (6) failed to timely pay wages due at time of separation; and (7) engaged in unfair business practices. Seper seeks a state-wide class action of current and former non-exempt employees employed with VITAS in California within the four years preceding the filing of the lawsuit. She seeks court determination that this action may be maintained as a class action for the entire California class and subclasses, designation as class representative, declaratory relief, injunctive relief, damages (including wages for regular or overtime hours allegedly worked but not paid, premium payments for missed meal or rest periods, and unreimbursed expenses), all applicable penalties associated with each claim, pre and post-judgment interest, and attorneys' fees and costs. Seper served VITAS CA with the lawsuit, Jordan A. Seper on behalf of herself and others similarly situated v. VITAS Healthcare Corporation of California, a Delaware corporation; VITAS Healthcare Corp of CA, a business entity unknown; and DOES 1 to 100, inclusive; Los Angeles Superior Court Case Number BC 642857 on October 13, 2016.

On November 14, 2016, the Parties filed a Stipulation to transfer the venue of the lawsuit from San Francisco to Los Angeles. The Los Angeles Superior Court Complex Division accepted transfer of the case on December 6, 2016 and stayed the case. On December 16, 2016, VITAS CA filed its Answer and served written discovery on Seper.

Jiwan Chhina ("Chhina"), hired by VITAS as a Home Health Aide on February 5, 2002, is currently a Licensed Vocational Nurse for VITAS' San Diego program. On September 27, 2016, Chhina filed a lawsuit in San Diego Superior Court, alleging (1) failure to pay minimum wage for all hours worked; (2) failure to provide overtime for all hours worked; (3) failure to pay wages for all hours at the regular rate; (4) failure to provide meal periods; (5) failure to provide rest breaks; (6) failure to provide complete and accurate wage statements; (7) failure to pay for all reimbursement expenses; (8) unfair business practices; and (9) violation of the California Private Attorneys General Act. Chhina seeks to pursue these claims in the form of a state-wide class action of current and former non-exempt employees employed with VITAS in California within the four years preceding the filing of the lawsuit. He seeks court determination that this action may be maintained as a class action for the entire California class and subclasses, designation as class representative, declaratory relief, injunctive relief, damages (including wages for regular or overtime hours allegedly worked but not paid, premium payments for missed meal or rest periods, and unreimbursed expenses), all applicable penalties associated with each claim, pre-judgment interest, and attorneys' fees and costs.

Chhina served VITAS CA with the lawsuit, Jiwan Chhina v. VITAS Health Services of California, Inc., a California corporation; VITAS Healthcare Corporation of California, a Delaware corporation; VITAS Healthcare Corporation of California, a Delaware corporation dba VITAS Healthcare, Inc.; and DOES 1 to 100, inclusive; San Diego Superior Court Case Number 37-2015-00033978-CU-OE-CTL on November 3, 2016. On December 1, 2016, VITAS CA filed its Answer and served written discovery on Chhina.

On May 19, 2017, Chere Phillips (a Home Health Aide in Sacramento) and Lady Moore (a former Social Worker in Sacramento) filed a lawsuit against VITAS Healthcare Corporation of California in Sacramento County Superior Court, alleging claims for (1) failure to pay all wages due; (2) failure to authorize and permit rest periods; (3) failure to provide off-duty meal periods; (4) failure to furnish accurate wage statements; (5) unreimbursed business expenses; (6) waiting time penalties; (7) violations of unfair competition law; and (8) violation of the Private Attorney General Act. The case is captioned: Chere Phillips and Lady Moore v. VITAS Healthcare Corporation of California, Sacramento County Superior Court, Case No. 34-2017-0021-2755. Plaintiffs sought to pursue these claims in the form of a state-wide class action of current and former non-exempt employees employed with VITAS CA in California within the four years preceding the filing of the lawsuit. Plaintiffs served VITAS with the lawsuit on June 5, 2017. VITAS CA timely answered the Complaint generally denying the Plaintiffs' allegations. The Court has stayed all class discovery in this case pending resolution of the November 10, 2017 mediation in the Seper and Chhina cases.

-12-

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There are currently three other lawsuits against VITAS pending in the superior courts of other California counties that contain claims and class periods that substantially overlap with Phillips' and Moore's claims. These are Seper, v. VITAS Healthcare Corp of California et al., filed on September 26, 2016 in Los Angeles County Superior Court BC 642857; Chhina v. VITAS Health Service, Inc. et al., filed on September 27, 2016 in San Diego County Superior Court, 34-2015-00033998 CU_OE_CTL; both described above and Williams v. VITAS Healthcare Corporation of California, filed on May 22, 2017 in Alameda County Superior Court, RG 17853886.

Jazzina Williams' (a Home Health Aide in Sacramento) lawsuit alleges claims for (1) failure to pay all wages due; (2) failure to authorize and permit rest periods; (3) failure to provide off-duty meal periods; (4) failure to furnish accurate wage statements; (5) unreimbursed business expenses; (6) waiting time penalties; and (7) violations of the Private Attorney General Act. Williams seeks to pursue these claims in the form of a state-wide class action of current and former non-exempt employees. Plaintiff served VITAS with the lawsuit on May 31, 2017. VITAS timely answered the Complaint generally denying Plaintiff's allegations. Williams is pursuing discovery of her individual claims and has agreed to a stay of class discovery pending outcome of a November 10, 2017 mediation of the Seper and Chhina cases. Defendant filed and served each of Plaintiffs Williams, Phillips, and Moore with a Notice of Related Cases on July 19, 2017.

Defendant understands that the Seper and Chhina cases will be effectively consolidated in Los Angeles County Superior court: Chhina will be dismissed as a separate action and joined with Seper through the filing of an amended complaint in Seper in which Chhina is also identified as a named plaintiff.

The Company is not able to reasonably estimate the probability of loss or range of loss for any of these lawsuits at this time.

The Company intends to defend vigorously against the allegations in each of the above lawsuits. 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, 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.

12. Concentration of Risk

During the quarter VITAS had pharmacy services agreements with one service provider to provide specified pharmacy services for VITAS and its hospice patients. VITAS made purchases from this provider of \$7.7 and \$24.8 million for the three and nine months ended September 30, 2017, respectively. Vitas made purchases from two providers of \$9.5 and \$26.9 million for the three and nine months ended September 30, 2016, respectively. Purchases from these providers were more than 90% of all pharmacy services used by VITAS during each period presented.

13. Cash Overdrafts and Cash Equivalents

There are \$468,000 in cash overdrafts payable included in accounts payable at September 30, 2017 (December 31, 2016 - \$8.6 million).

From time to time throughout the year, we invest excess cash in money market funds 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.

14. 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.

-13-

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The following shows the carrying value, fair value and the hierarchy for our financial instruments as of September 30, 2017 (in thousands):

| | Carrying Value | Fair Value Measure | | |
|--|----------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Mutual fund investments of deferred compensation plans held in trust | \$60,445 | \$60,445 | \$ - | \$ - |
| Total debt | 82,500 | - | 82,500 | - |

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of December 31, 2016 (in thousands):

| | Carrying Value | Fair Value Measure | | |
|--|----------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Mutual fund investments of deferred compensation plans held in trust | \$54,389 | \$54,389 | \$ - | \$ - |
| Total debt | 108,750 | - | 108,750 | - |

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 Footnote 5, 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.

15. Capital Stock Repurchase Plan Transactions

We repurchased the following capital stock for the three and nine months ended September 30, 2017 and 2016:

| Three months ended September 30, | Nine months ended September 30, |
|----------------------------------|---------------------------------|
|----------------------------------|---------------------------------|

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| | 2017 | 2016 | 2017 | 2016 |
|---|----------|------|----------|-----------|
| Total cost of repurchased shares (in thousands) | \$9,576 | \$ - | \$94,640 | \$102,313 |
| Shares repurchased | 50,000 | - | 500,000 | 780,134 |
| Weighted average price per share | \$191.52 | \$ - | \$189.28 | \$131.15 |

In March 2017, the Board of Directors authorized an additional \$100.0 million for stock repurchase under Chemed's existing share repurchase program. We currently have \$55.5 million of authorization remaining under this share repurchase plan.

-14-

16. Recent Accounting Standards

In May 2014, the FASB issued Accounting Standards Update “ASU No. 2014-09 – Revenue from Contracts with Customers” which provides additional guidance to clarify the principles for recognizing revenue. The standard and subsequent amendments are intended to develop a common revenue standard for removing inconsistencies and weaknesses, improve comparability, provide more useful information to users through improved disclosure requirements, and simplify the preparation of financial statements. This guidance and subsequent amendments are effective for fiscal years beginning after December 15, 2017. At both VITAS and Roto-Rooter, we have performed an initial analysis to determine the appropriate aggregation of customers into portfolios with similar collection and service requirement characteristics. This analysis is currently being refined to ensure the portfolios identified will result in a materially consistent revenue recognition pattern that would result as if each customer were evaluated separately. Additionally, based on our initial evaluation, we believe the majority of our provision for bad debts, currently classified in selling, general and administrative expense in our Statements of Income, will be reclassified as a contra-revenue as it will be considered an implicit price concession at the time service is performed. For the nine month period ended September 30, 2017, our total provision for bad debt is \$13.0 million. We anticipate a modified retrospective adoption of the ASU.

In February 2016, the FASB issued Accounting Standards Update “ASU No. 2016-02 – Leases” which introduces a lessee model that brings most leases on to the balance sheets and updates lessor accounting to align with changes in the lessee model and the revenue recognition standard. The guidance is effective for fiscal years beginning after December 15, 2018. Based on the provisions of the ASU, we anticipate a material increase in both assets and liabilities when our current operating lease contracts are recorded on the balance sheet. We do not currently have a specific estimate of the impact.

In August 2016, the FASB issued Accounting Standards Update “ASU No. 2016-15 – Cash Flow Classification” which amends guidance on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of ASU 2016-15 is to reduce diversity in practice related to eight specific cash flow issues. The guidance in this ASU is effective for fiscal years beginning after December 15, 2017. We have analyzed the impact of ASU 2016-15 on our statement of cash flows and do not expect it to have a material effect.

In January 2017, the FASB issued Accounting Standards Update “ASU No. 2017-4 – Intangibles – Goodwill and Other”. To simplify the subsequent measurement of goodwill, the FASB eliminated Step 2 from the goodwill impairment test. The guidance in the ASU is effective for the Company in fiscal years beginning after December 15, 2019. Early adoption is permitted. We anticipate adoption of this standard will have no impact on our consolidated financial statements.

17. Goodwill

Shown below is movement in Goodwill (in thousands):

| | Vitas | Roto-Rooter | Total |
|-------------------------------|-----------|-------------|-----------|
| Balance at December 31, 2016 | \$328,301 | \$ 144,065 | \$472,366 |
| Business combinations | - | 481 | 481 |
| Foreign currency adjustments | - | 177 | 177 |
| Balance at September 30, 2017 | \$328,301 | \$ 144,723 | \$473,024 |

During 2017, we completed one business combination within the Roto-Rooter segment for \$525,000 in cash to increase our market penetration.

Item 2. 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 and Roto-Rooter Group, Inc. VITAS focuses on hospice care that helps make terminally ill patients' final days as comfortable as possible. Through its teams 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's services are 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 over 90% of the U.S. population.

The following is a summary of the key operating results (in thousands except per share amounts):

| | Three months ended | | Nine months ended | | |
|-----------------------------------|--------------------|-----------|-------------------|-------------|---|
| | September 30, | | September 30, | | |
| | 2017 | 2016 | 2017 | 2016 | |
| Service revenues and sales | \$417,444 | \$392,607 | \$1,238,367 | \$1,173,405 | |
| Net income | \$35,437 | \$26,829 | \$43,625 | \$76,554 | |
| Diluted EPS | \$2.13 | \$1.62 | \$2.60 | \$4.54 | |
| Adjusted net income | \$35,772 | \$28,643 | \$102,174 | \$86,625 | |
| Adjusted diluted EPS | \$2.15 | \$1.73 | \$6.10 | \$5.14 | |
| Adjusted EBITDA | \$67,604 | \$57,387 | \$195,921 | \$170,391 | |
| Adjusted EBITDA as a % of revenue | 16.2 | % 14.6 | % 15.8 | % 14.5 | % |

Adjusted net income, adjusted diluted EPS, earnings before interest, taxes and depreciation and amortization ("EBITDA"), Adjusted EBITDA and Adjusted EBITDA as a percent of revenue are not measures derived in accordance with US GAAP. We provide non-GAAP measures to help readers evaluate our operating results and to 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. A reconciliation of our non-GAAP measures is presented on pages 30-32.

Both VITAS and Roto-Rooter have significant operations in Houston and south Florida. For the three and nine months ended September 30, 2017 we did not experience any material business interruptions or loss of assets related to the hurricanes in Houston or Florida.

Net income for the nine months ended September 30, 2017 includes \$55.8 million (\$3.33 per share) of after-tax expense (\$90 million pre-tax) for the accrual of a potential litigation settlement related to the May 2, 2013 complaint filed against the Company by the U.S. Department of Justice. As required by U.S. Generally Accepted Accounting Principles, the Company accrues for contingent loss claims in its financial statements when it is probable that a liability has been incurred and the amount can be reasonably estimated. Based on recent case developments, including recent mediation discussions with the U.S. Department of Justice, the Company believes that it is probable that this matter will be settled, and that such settlement will include settlement payments and relator attorney fees, by the Company of approximately the accrued amount. However, the achievement of a final, definitive settlement will require the parties to resolve several outstanding issues (and draft and negotiate related definitive documentation), and there can be no assurance that such a final, definitive settlement will be reached and agreed on these or other terms.

For the three months ended September 30, 2017, the increase in consolidated service revenues and sales was driven by a 17.1% increase at Roto-Rooter and a 2.2% increase at VITAS. The increase in service revenues at Roto-Rooter was driven by an increase in all major service lines. Of Roto-Rooter's total revenue increase, 49.1% is related to water restoration. The increase in service revenues at VITAS was primarily a result of Medicare reimbursement rates

increasing 1.3%, a 2.8% increase in days of care, offset by acuity mix shift which negatively impacted revenue 2.2% when compared to the prior year period. Adjusted EBITDA as a percent of revenue increased 160 basis points when compared to the prior year quarter mainly as a result of mix shift in levels of care and improved cost management for high acuity care. See page 33 for additional VITAS operating metrics.

For the nine months ended September 30, 2017, the increase in consolidated service revenues and sales was driven by a 14.4% increase at Roto-Rooter and a 2.0% increase at VITAS. The increase in service revenues at Roto-Rooter was driven by an increase in all major service lines. Of Roto-Rooter's total revenue increase, 49.0% was related to water restoration. The increase in service revenues at VITAS was primarily a result of Medicare reimbursement rates increasing 1.7%, a 2.7% increase in days of care, offset by acuity mix shift which negatively impacted revenue 2.4% when compared to the prior year period. Adjusted EBITDA as a percent of revenue increased 130 basis points when compared to the prior year quarter mainly as a result of mix shift in levels of care and improved cost management for high acuity care. See page 33 for additional VITAS operating metrics.

VITAS expects its full-year 2017 revenue growth, prior to Medicare cap, to be in the range of 2.0% to 3.0%. Admissions and Average Daily Census in 2017 are estimated to expand approximately 2.0% to 3.0%. Adjusted EBITDA margin, prior to Medicare cap, is estimated to be 15.0%. This guidance includes \$1.5 million for Medicare cap billing limitations. Roto-Rooter expects full-year 2017 revenue growth of 13.0% to 14.0%. The revenue estimate is based upon increased job pricing of approximately 2.0% and continued growth in water restoration services. Adjusted EBITDA margin for 2017 is estimated in the range of 22.5%. We anticipate that our operating income and cash flows will be sufficient to operate our businesses and meet any commitments for the foreseeable future.

-16-

Financial Condition

Liquidity and Capital Resources

Material changes in the balance sheet accounts from December 31, 2016 to September 30, 2017 include the following:

- ▲ \$40.5 million decrease in accounts receivable due mainly to timing of Medicare and Medicaid payments.
- ▲ \$21.8 million increase in properties plant and equipment mainly due to the purchase of transportation equipment during the quarter.
- ▲ \$36.2 million increase in net deferred taxes associated with amounts recorded for a potential litigation settlement.
- ▲ \$4.8 million decrease in accounts payable mainly due to timing of payments.
- ▲ \$12.3 increase in income taxes due to timing of payments.
- ▲ \$89.6 million increase in accrued legal due to a potential litigation settlement.
- ▲ \$26.3 million decrease in long-term debt due to payments on our term loan and revolving line of credit.

Net cash provided by operating activities increased \$62.6 million mainly as a result of a \$22.9 million increase in net income excluding potential litigation settlement and a \$19.5 million decrease caused by changes in accounts receivable. The potential litigation settlement recorded is non-cash at September 30, 2017 and does not impact net cash provided by operating activities.

Significant changes in our accounts receivable balances are typically 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 period 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.

Management continually evaluates cash utilization alternatives, including share repurchase, debt repurchase, acquisitions and increased dividends to determine the most beneficial use of available capital resources.

We have issued \$35.6 million in standby letters of credit as of September 30, 2017, mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of September 30, 2017, we have approximately \$309.4 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility. Management believes its liquidity and sources of capital are satisfactory for the Company's needs in the foreseeable future.

Commitments and Contingencies

Collectively, the terms of our credit agreements require us to meet various financial covenants, to be tested quarterly. We are in compliance with all financial and other debt covenants as of September 30, 2017 and anticipate remaining in compliance throughout the foreseeable future.

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, 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 with respect to U.S. v. Vitas, 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.

On May 2, 2013, the government filed a False Claims Act complaint against the Company and certain of its hospice-related subsidiaries in the U.S. District Court for the Western District of Missouri, *United States v. VITAS Hospice Services, LLC, et al.*, No. 4:13-cv-00449-BCW (the “2013 Action”). Prior to that date, the Company received various qui tam lawsuits and subpoenas from the U.S. Department of Justice and OIG that have been previously disclosed. The 2013 Action alleges that, since at least 2002, VITAS, and since 2004, the Company, submitted or caused the submission of false claims to the Medicare program by (a) billing Medicare for continuous home care services when the patients were not eligible, the services were not provided, or the medical care was inappropriate, and (b) billing Medicare for patients who were not eligible for the Medicare hospice benefit because they did not have a life expectancy of six months or less if their illnesses ran their normal course. This complaint seeks treble damages, statutory penalties, and the costs of the action, plus interest. The defendants filed a motion to dismiss on September 24, 2013. On September 30, 2014, the Court denied the motion, except to the extent that claims were filed before July 24, 2002. On November 13, 2014, the government filed a Second Amended Complaint. The Second Amended Complaint changed and supplemented some of the allegations, but did not otherwise expand the causes of action or the nature of the relief sought against VITAS. VITAS filed its Answer to the Second Amended Complaint on August 11, 2015. Based on recent case developments, including recent mediation discussions with the U.S. Department of Justice, we believe it probable that this matter will be settled, to include payments of \$55.8 million after-tax (\$90.0 million pretax) including attorneys’ fees. A final settlement will require the parties to resolve several outstanding issues, and to draft and negotiate definitive documentation. There can be no assurance that such a final definitive settlement will be reached on these, or other, terms. For additional procedural history of this litigation, please refer to our prior quarterly and annual filings. The costs incurred related to *U.S. v. Vitas* and related regulatory matters were \$935,000 and \$599,000 for the quarters ended September 30, 2017 and 2016, respectively. For the nine months ended September 30, 2017 and 2016, the net costs were \$5.2 million and \$4.1 million respectively.

Net income for the nine months ended September 30, 2017 includes the \$55.8 million of after-tax expense (\$90 million pre-tax) for the accrual of such potential litigation settlement. As required by GAAP, the Company accrues for contingent loss claims in its financial statements when it is probable that a liability has been incurred and the amount can be reasonably estimated.

The Company and certain current and former directors and officers are defendants in a case captioned *In re Chemed Corp. Shareholder Derivative Litigation*, No. 13 Civ. 1854 (LPS) (CJB) (D. Del.), which was consolidated on February 2, 2015.

On February 2, 2015, the Court appointed KBC Asset Management NV the sole lead plaintiff and its counsel, the sole lead and liaison counsel. On March 3, 2015, Lead Plaintiff KBC designated its Complaint as the operative complaint in the consolidated proceedings and defendants renewed a previously filed motion to dismiss those claims and allegations. The consolidated Complaint named fourteen individual defendants, together with the Company as nominal defendant. The Complaint alleges a claim for breach of fiduciary duty against the individual defendants for allegedly permitting the Company to submit false claims to the U.S. government. The Complaint seeks (a) a declaration that the individual defendants breached their fiduciary duties to the Company; (b) an order requiring those defendants to pay compensatory damages, restitution and exemplary damages, in unspecified amounts, to the Company; (c) an order directing the Company to implement new policies and procedures; and (d) costs and disbursements incurred in bringing the action, including attorneys’ fees. On May 12, 2016, the Court issued a Memorandum Order granting Chemed’s motion to dismiss, and dismissing Lead Plaintiff KBC’s Complaint without prejudice to KBC’s opportunity to file within 30 days of the date of the Court’s Order (i.e., by June 13, 2016) an amended Complaint addressing the deficiencies in its duty of loyalty claim. Lead Plaintiff KBC did not file an amended Complaint within the time specified by the Court.

However, on June 13, 2016, counsel for Chemed shareholder Michael Kvint filed a letter with the Court requesting a two-week extension to file a motion to substitute Mr. Kvint as lead plaintiff, in place of Lead Plaintiff KBC and to file an amended Complaint. Alternatively, counsel for Mr. Kvint requested that any dismissal of the action be with prejudice to KBC only. On June 14, 2016, Chemed filed a reply letter with the Court, reserving its rights to oppose

any motion filed by Mr. Kvint and, if warranted, to oppose any other actions taken by Mr. Kvint to proceed with the action (including by filing an untimely amended Complaint). On June 21, 2016, the Court entered an Oral Order providing Mr. Kvint until June 30, 2016 to file a Motion to Substitute and Motion for Leave to File an Amended Complaint. On that date, Mr. Kvint filed, under seal, a Motion to Substitute Plaintiff and File Amended Complaint, and attached a Proposed Amended Complaint. Mr. Kvint's motion was fully briefed by the parties. On April 25, 2017, Magistrate Judge Burke issued a Report and Recommendation recommending that the Court permit Mr. Kvint to intervene as Lead Plaintiff and grant leave to amend the complaint to replead the duty of loyalty claim only. On May 16, 2017, Chief Judge Stark signed an Order adopting that Report and Recommendation. Plaintiff Kvint filed a Corrected Amended Complaint on May 30, 2017. On September 13, 2017, the Court entered an order dismissing with prejudice the claims against defendants Timothy S, O'Toole and Joel F. Gemunder and permitting Defendants to file a Motion to Dismiss the Corrected Amended Complaint on or before September 29, 2017, with Plaintiff's Answering to be filed on or before December 1, 2017, and Defendants' Reply Brief to be filed on or before December 29, 2017. Defendants filed their Motion to Dismiss timely. As the Company has previously disclosed, the legal fees and costs associated with defending against this lawsuit are presently being paid by insurance. For additional procedural history of this litigation, please refer to our prior quarterly and annual filings.

-18-

Jordan Seper, ("Seper") a Registered Nurse at VITAS' Inland Empire program from May 12, 2014 to March 21, 2015, filed a lawsuit in San Francisco Superior Court on September 26, 2016. She alleged VITAS Healthcare Corp of CA ("VITAS CA") (1) failed to provide minimum wage for all hours worked; (2) failed to provide overtime for all hours worked; (3) failed to provide a second meal period; (4) failed to provide rest breaks; (5) failed to indemnify for necessary expenditures; (6) failed to timely pay wages due at time of separation; and (7) engaged in unfair business practices. Seper seeks a state-wide class action of current and former non-exempt employees employed with VITAS in California within the four years preceding the filing of the lawsuit. She seeks court determination that this action may be maintained as a class action for the entire California class and subclasses, designation as class representative, declaratory relief, injunctive relief, damages (including wages for regular or overtime hours allegedly worked but not paid, premium payments for missed meal or rest periods, and unreimbursed expenses), all applicable penalties associated with each claim, pre and post-judgment interest, and attorneys' fees and costs. Seper served VITAS CA with the lawsuit, Jordan A. Seper on behalf of herself and others similarly situated v. VITAS Healthcare Corporation of California, a Delaware corporation; VITAS Healthcare Corp of CA, a business entity unknown; and DOES 1 to 100, inclusive; Los Angeles Superior Court Case Number BC 642857 on October 13, 2016.

On November 14, 2016, the Parties filed a Stipulation to transfer the venue of the lawsuit from San Francisco to Los Angeles. The Los Angeles Superior Court Complex Division accepted transfer of the case on December 6, 2016 and stayed the case. On December 16, 2016, VITAS CA filed its Answer and served written discovery on Seper.

Jiwan Chhina ("Chhina"), hired by VITAS as a Home Health Aide on February 5, 2002, is currently a Licensed Vocational Nurse for VITAS' San Diego program. On September 27, 2016, Chhina filed a lawsuit in San Diego Superior Court, alleging (1) failure to pay minimum wage for all hours worked; (2) failure to provide overtime for all hours worked; (3) failure to pay wages for all hours at the regular rate; (4) failure to provide meal periods; (5) failure to provide rest breaks; (6) failure to provide complete and accurate wage statements; (7) failure to pay for all reimbursement expenses; (8) unfair business practices; and (9) violation of the California Private Attorneys General Act. Chhina seeks to pursue these claims in the form of a state-wide class action of current and former non-exempt employees employed with VITAS in California within the four years preceding the filing of the lawsuit. He seeks court determination that this action may be maintained as a class action for the entire California class and subclasses, designation as class representative, declaratory relief, injunctive relief, damages (including wages for regular or overtime hours allegedly worked but not paid, premium payments for missed meal or rest periods, and unreimbursed expenses), all applicable penalties associated with each claim, pre-judgment interest, and attorneys' fees and costs. Chhina served VITAS CA with the lawsuit, Jiwann Chhina v. VITAS Health Services of California, Inc., a California corporation; VITAS Healthcare Corporation of California, a Delaware corporation; VITAS Healthcare Corporation of California, a Delaware corporation dba VITAS Healthcare, Inc.; and DOES 1 to 100, inclusive; San Diego Superior Court Case Number 37-2015-00033978-CU-OE-CTL on November 3, 2016. On December 1, 2016, VITAS CA filed its Answer and served written discovery on Chhina.

On May 19, 2017, Chere Phillips (a Home Health Aide in Sacramento) and Lady Moore (a former Social Worker in Sacramento) filed a lawsuit against VITAS Healthcare Corporation of California in Sacramento County Superior Court, alleging claims for (1) failure to pay all wages due; (2) failure to authorize and permit rest periods; (3) failure to provide off-duty meal periods; (4) failure to furnish accurate wage statements; (5) unreimbursed business expenses; (6) waiting time penalties; (7) violations of unfair competition law; and (8) violation of the Private Attorney General Act. The case is captioned: Chere Phillips and Lady Moore v. VITAS Healthcare Corporation of California, Sacramento County Superior Court, Case No. 34-2017-0021-2755. Plaintiffs sought to pursue these claims in the form of a state-wide class action of current and former non-exempt employees employed with VITAS CA in California within the four years preceding the filing of the lawsuit. Plaintiffs served VITAS with the lawsuit on June 5, 2017. VITAS CA timely answered the Complaint generally denying the Plaintiffs' allegations. The Court has stayed all class discovery in this case pending the resolution of the November 10, 2017 in the Seper and Chhina cases.

There are currently three other lawsuits against VITAS pending in the superior courts of other California counties that contain claims and class periods that substantially overlap with Phillips' and Moore's claims. These are Seper, v.

VITAS Healthcare Corp of California et al., filed on September 26, 2016 in Los Angeles County Superior Court BC 642857; Chhina v. VITAS Health Service, Inc. et al., filed on September 27, 2016 in San Diego County Superior Court, 34-2015-00033998 CU_OE_CTL; both described above and Williams v. VITAS Healthcare Corporation of California, filed on May 22, 2017 in Alameda County Superior Court, RG 17853886.

Jazzina Williams' (a Home Health Aide in Sacramento) lawsuit alleges claims for (1) failure to pay all wages due; (2) failure to authorize and permit rest periods; (3) failure to provide off-duty meal periods; (4) failure to furnish accurate wage statements; (5) unreimbursed business expenses; (6) waiting time penalties; and (7) violations of the Private Attorney General Act. Williams seeks to pursue these claims in the form of a state-wide class action of current and former non-exempt employees. Plaintiff served VITAS with the lawsuit on May 31, 2017. VITAS timely answered the Complaint generally denying Plaintiff's allegations. Williams is pursuing discovery of her individual claims and has agreed to a stay of class discovery pending outcome of a November 10, 2017 mediation of the Seper and Chhina cases. Defendant filed and served each of Plaintiffs Williams, Phillips, and Moore with a Notice of Related Cases on July 19, 2017. Defendant understands that the Seper and Chhina cases will be effectively consolidated in Los Angeles County Superior court: Chhina will be dismissed as a separate action and joined with Seper through the filing of an amended complaint in Seper in which Chhina is also identified as a named plaintiff.

-19-

The Company is not able to reasonably estimate the probability of loss or range of loss for any of these lawsuits at this time.

The Company intends to defend vigorously against the allegations in each of the above lawsuits. 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, 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.

Results of Operations

Three months ended September 30, 2017 versus 2016 - Consolidated Results

Our service revenues and sales for the third quarter of 2017 increased 6.3% versus services and sales revenues for the third quarter of 2016. Of this increase, a \$6.1 million increase was attributable to VITAS and \$18.8 million increase was attributable to Roto-Rooter. The following chart shows the components of those changes (in thousands):

| | Increase/(Decrease) | |
|-----------------------|---------------------|---------|
| | Amount | Percent |
| VITAS | | |
| Routine homecare | \$ 11,217 | 5.0 |
| Continuous care | (4,025) | (11.9) |
| General inpatient | (1,334) | (5.6) |
| Medicare cap | 228 | 100.0 |
| Roto-Rooter | | |
| Plumbing | 7,262 | 15.2 |
| Drain cleaning | 1,442 | 4.1 |
| Water restoration | 9,208 | 77.2 |
| Contractor operations | 632 | 6.4 |
| Other | 207 | 4.2 |
| Total | \$ 24,837 | 6.3 |

The increase in VITAS' revenues for the third quarter of 2017 versus the third quarter of 2016 was comprised of an average net Medicare reimbursement rate increasing approximately 1.3%, a 2.8% increase in days of care offset by acuity mix shift which negatively impacted revenue 2.2% when compared to the prior year period.

Days of care during the quarter ended September 30 were as follows:

| | Days of Care | | Increase/(Decrease) Percent |
|--------------------|--------------|-----------|--------------------------------|
| | 2017 | 2016 | |
| Routine homecare | 1,458,153 | 1,407,623 | 3.6 |
| Continuous care | 41,237 | 46,582 | (11.5) |
| General inpatient | 32,567 | 36,241 | (10.1) |
| Total days of care | 1,531,957 | 1,490,446 | 2.8 |

Over 90% of VITAS' service revenues for the period were from Medicare and Medicaid.

The increase in plumbing revenues for the third quarter of 2017 versus 2016 is attributable to a 14.2% increase in price and service mix shift as well as a 1.0% increase in job count. Drain cleaning revenues for the third quarter of 2017 versus 2016 reflect a 6.2% increase in price and service mix shift offset by a 2.1% decrease in job count. Water restoration for the third quarter of 2017 versus 2016 increased 77.2% as a result of continued expansion of this service offering including a 38.0% increase in number of jobs performed. Contractor operations increased 6.4% mainly due

to their expansion into water restoration.

-20-

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The consolidated gross margin was 31.0% in the third quarter of 2017 as compared with 28.3% in the third quarter of 2016. On a segment basis, VITAS' gross margin was 23.1% in the third quarter of 2017 as compared with 20.7%, in the third quarter of 2016. The increase in VITAS gross margin is the result of labor and ancillary cost management. The Roto-Rooter segment's gross margin was 48.7% for the third quarter of 2017 compared with 47.8% in the third quarter of 2016. The increase in Roto-Rooter gross margin is the result mainly of higher revenues, particularly in water restoration, with relatively low increase in branch level fixed costs.

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

| | Three months ended September 30, 2017 2016 | |
|--|--|----------|
| SG&A expenses before market value adjustments of deferred compensation plans, long-term incentive compensation, and OIG investigation expenses | \$63,463 | \$56,475 |
| Impact of market value adjustments related to assets held in deferred compensation trusts | 1,417 | 1,656 |
| Long-term incentive compensation | 1,104 | 643 |
| Expenses related to OIG investigation | 935 | 599 |
| Total SG&A expenses | \$66,919 | \$59,373 |

SG&A expenses before long-term incentive compensation, expenses related to OIG investigation and the impact of market value adjustments related to assets held in deferred compensation trusts for the third quarter of 2017 were up 12.4% when compared to the third quarter of 2016. This increase was mainly a result of the increase in variable expenses caused by increased revenue, particularly in the Roto-Rooter segment, increased advertising expense at Roto-Rooter and normal salary increases in 2017.

During the third quarter of 2017, a credit of \$371,000 was recorded due to the recovery of previously recognized expenses related to the closure of the programs in one state at Vitas. There were no other operating expenses recorded in the third quarter of 2016.

Other income/(expense) - net comprise (in thousands):

| | Three months ended September 30, 2017 2016 | |
|--|--|---------|
| Market value adjustment on assets held in deferred compensation trusts | \$1,417 | \$1,656 |
| Loss on disposal of property and equipment | (146) | (134) |
| Interest income | 51 | 119 |
| Other | 1 | (1) |
| Total other income/(expense) - net | \$1,323 | \$1,640 |

Our effective income tax rate was 34.7% in the third quarter of 2017 compared to 38.3% during the third quarter of 2016. The change in the effective income tax rate is a result of the adoption of ASU No. 2016-09 – Compensation – Stock Compensation in 2017 which requires that the excess tax benefits from stock based compensation now be recorded in the income tax provision on the statements of income. Excluding the adoption of the ASU, our effective income tax rate is 38.0%.

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

| | Three months ended September 30, | |
|---|--|-----------|
| | 2017 | 2016 |
| VITAS | | |
| Expenses related to OIG investigation | \$(578) | \$(370) |
| Program closure income | 223 | - |
| Medicare cap sequestration adjustment | - | (141) |
| Corporate | | |
| Excess tax benefits on stock compensation | 1,783 | - |
| Stock option expense | (1,064) | (897) |
| Long-term incentive compensation | (699) | (406) |
| Total | \$(335) | \$(1,814) |

Three months ended September 30, 2017 versus 2016 - Segment Results

The change in net income/(loss) for the third quarter of 2017 versus the third quarter of 2016 is due to (in thousands):

| | Increase/(Decrease) | |
|-------------|---------------------|---------|
| | Amount | Percent |
| VITAS | \$ 5,551 | 26.6 |
| Roto-Rooter | 3,179 | 24.7 |
| Corporate | (122) | (1.8) |
| | \$ 8,608 | 32.1 |

VITAS' after-tax earnings were positively impacted in 2017 compared to 2016 by a \$6.1 million increase in revenue and a \$2.3 million decrease in cost of services provided and goods sold. After-tax earnings as a percent of revenue in the third quarter of 2017 were 9.2%, an increase of 1.8% over the third quarter of 2016.

Roto-Rooter's net income was positively impacted in 2017 compared to 2016 primarily by a \$9.2 million revenue increase in Roto-Rooter's water restoration line of business and a \$7.3 million increase in plumbing revenue. After-tax earnings as a percent of revenue at Roto-Rooter in the third quarter of 2017 was 12.5% as compared to 11.7% in the third quarter of 2016.

Results of Operations

Nine months ended September 30, 2017 versus 2016 - Consolidated Results

Our service revenues and sales for the first nine months of 2017 increased 5.5% versus services and sales revenues for the first nine months of 2016. Of this increase, a \$16.9 million increase was attributable to VITAS and \$48.1 million increase was attributable to Roto-Rooter. The following chart shows the components of those changes (in thousands):

| | Increase/(Decrease) | |
|-------------------|---------------------|---------|
| | Amount | Percent |
| VITAS | | |
| Routine homecare | \$ 33,882 | 5.1 |
| Continuous care | (11,600) | (10.9) |
| General inpatient | (5,417) | (7.3) |
| Medicare cap | (19) | (8.3) |
| Roto-Rooter | | |

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| | | |
|-----------------------|-----------|------|
| Plumbing | 16,852 | 11.6 |
| Drain cleaning | 3,454 | 3.2 |
| Water restoration | 23,597 | 64.6 |
| Contractor operations | 3,180 | 10.8 |
| Other | 1,033 | 6.9 |
| Total | \$ 64,962 | 5.5 |

-22-

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The increase in VITAS' revenues for the first nine months of 2017 versus the first nine months of 2016 was comprised of an average net Medicare reimbursement rate increasing approximately 1.3%, a 2.7% increase in days of care offset by acuity mix shift which negatively impacted revenue when compared to the prior year period.

Days of care during the nine months ended September 30 were as follows:

| | Days of Care | | Increase/(Decrease) Percent |
|--------------------|--------------|-----------|--------------------------------|
| | 2017 | 2016 | |
| Routine homecare | 4,256,541 | 4,109,775 | 3.6 |
| Continuous care | 129,762 | 145,327 | (10.7) |
| General inpatient | 97,803 | 111,323 | (12.1) |
| Total days of care | 4,484,106 | 4,366,425 | 2.7 |

Over 90% of VITAS' service revenues for the period were from Medicare and Medicaid.

The increase in plumbing revenues for the first nine months of 2017 versus 2016 is attributable primarily to service mix shift as well as a 0.6% increase in job count. Drain cleaning revenues for the first nine months of 2017 versus 2016 reflect a 5.3% increase in price and service mix shift offset by a 2.1% decrease in job count. Water restoration for the first nine months of 2017 versus 2016 increased 64.6% as a result of continued expansion of this service offering including a 32.6% increase in jobs performed. Contractor operations increased 10.8% mainly due to their expansion into water restoration.

The consolidated gross margin was 30.6% in the first nine months of 2017 as compared with 28.7% in the first nine months of 2016. On a segment basis, VITAS' gross margin was 22.5% in the first nine months of 2017 as compared with 21.1%, in the first nine months of 2016. The increase in VITAS' gross margin is the result of mix shift to higher margin care, labor and ancillary cost management. The Roto-Rooter segment's gross margin was 48.9% for the first nine months of 2017 compared with 48.0% in the first nine months of 2016. The increase in the Roto-Rooter gross margin is the result mainly of higher revenues, particularly in water restoration, with relatively low increase in branch level fixed costs.

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

| | Nine months ended September 30, | |
|--|------------------------------------|-----------|
| | 2017 | 2016 |
| SG&A expenses before market value adjustments of deferred compensation plans, long-term incentive compensation, and OIG investigation expenses | \$191,213 | \$174,183 |
| Impact of market value adjustments related to assets held in deferred compensation trusts | 5,619 | 1,857 |
| Expenses related to OIG investigation | 5,178 | 4,105 |
| Long-term incentive compensation | 3,021 | 901 |
| Total SG&A expenses | \$205,031 | \$181,046 |

SG&A expenses before long-term incentive compensation, expenses related to OIG investigation and the impact of market value adjustments related to assets held in deferred compensation trusts for the first nine months of 2017 were up 9.8% when compared to the first nine months of 2016. This increase was mainly a result of the increase in variable expenses caused by increased revenue, particularly in the in the Roto-Rooter segment, increased advertising expense at Roto-Rooter and normal salary increases in 2017.

Other operating expenses were \$91.1 million during the first nine months of 2017 related to a \$90.0 million potential litigation settlement and \$1.1 million related to the closure of the programs in one state at Vitas. During the first nine months of 2016, the Company recorded \$4.5 million related to early retirement expenses.

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Other income - net comprise (in thousands):

| | Nine months ended September 30, | |
|--|---------------------------------------|---------|
| | 2017 | 2016 |
| Market value adjustment on assets held in deferred compensation trusts | \$5,619 | \$1,857 |
| Loss on disposal of property and equipment | (481) | (224) |
| Interest income | 297 | 301 |
| Other | 4 | (1) |
| Total other income - net | \$5,439 | \$1,933 |

Our effective income tax rate was 25.8% in the first nine months of 2017 compared to 38.6% during the first nine months of 2016. The change in the effective income tax rate is due to the adoption of ASU No. 2016-09 – Compensation – Stock Compensation which requires that the excess tax benefits from stock based compensation now be recorded in the income tax provision on the statements of income. Excluding the impact of the ASU, our effective income tax rate for the first nine months of 2017 was 39.6%.

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

| | Nine Months Ended September 30, | |
|--|------------------------------------|------------|
| | 2017 | 2016 |
| VITAS | | |
| Potential litigation settlement | \$(55,800) | \$- |
| Expenses related to OIG investigation | (3,198) | (2,535) |
| Program closure expenses | (675) | - |
| Medicare cap sequestration adjustment | (65) | (141) |
| Early retirement expenses | - | (2,840) |
| Roto-Rooter | | |
| Expenses related to litigation settlements | (129) | (27) |
| Corporate | | |
| Excess tax benefits on stock compensation | 8,121 | - |
| Stock option expense | (4,892) | (3,958) |
| Long-term incentive compensation | (1,911) | (570) |
| Total | \$(58,549) | \$(10,071) |

Nine months ended September 30, 2017 versus 2016 - Segment Results

The change in net income/(loss) for the first nine months of 2017 versus the first nine months of 2016 is due to (in thousands):

| | Increase/(Decrease) | |
|-------------|---------------------|---------|
| | Amount | Percent |
| VITAS | \$ (43,741) | (74.7) |
| Roto-Rooter | 8,500 | 21.7 |
| Corporate | 2,312 | 10.9 |
| | \$ (32,929) | (43.0) |

VITAS' 2017 after-tax earnings were impacted in 2017 when compared to 2016 by a \$55.8 million (after-tax) potential litigation settlement offset by a \$16.8 million increase in revenue and a \$1.2 million decrease in cost of services provided and goods sold.

-24-

Roto-Rooter's net income was positively impacted in 2017 compared to 2016 primarily by a \$23.6 million revenue increase in Roto-Rooter's water restoration line of business, a \$16.9 million increase in plumbing revenue and a \$7.7 million increase in all other revenue types. After-tax earnings as a percent of revenue at Roto-Rooter in 2017 were 12.5% as compared to 11.7% in 2016.

The improvement at Corporate is due mainly to the impact of the adoption of ASU 2016-09 which positively impacted the Company's tax provision by approximately \$8.1 million which is partially offset by higher stock based compensation expenses.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENT OF INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2017
(in thousands)(unaudited)

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|-----------|-------------|-------------|------------------------|
| 2017 (a) | | | | |
| Service revenues and sales | \$288,951 | \$ 128,493 | \$ - | \$ 417,444 |
| Cost of services provided and goods sold | 222,119 | 65,928 | - | 288,047 |
| Selling, general and administrative expenses | 23,783 | 33,694 | 9,442 | 66,919 |
| Depreciation | 4,529 | 4,268 | 22 | 8,819 |
| Amortization | - | 33 | - | 33 |
| Other operating expenses | (371) | - | - | (371) |
| Total costs and expenses | 250,060 | 103,923 | 9,464 | 363,447 |
| Income/(loss) from operations | 38,891 | 24,570 | (9,464) | 53,997 |
| Interest expense | (53) | (73) | (922) | (1,048) |
| Intercompany interest income/(expense) | 2,950 | 1,378 | (4,328) | - |
| Other income/(expense)—net | (86) | (8) | 1,417 | 1,323 |
| Income/(expense) before income taxes | 41,702 | 25,867 | (13,297) | 54,272 |
| Income taxes | (15,248) | (9,833) | 6,246 | (18,835) |
| Net income/(loss) | \$26,454 | \$ 16,034 | \$ (7,051) | \$ 35,437 |

(a) The following amounts are included in net income (in thousands):

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|---------------------------------------|----------|-------------|------------|------------------------|
| Pretax benefit/(cost): | | | | |
| Stock option expense | \$- | \$ - | \$(1,683) | \$(1,683) |
| Long-term incentive compensation | - | - | (1,104) | (1,104) |
| Program closure expenses | 371 | - | - | 371 |
| Expenses related to OIG investigation | (935) | - | - | (935) |
| Total | \$(564) | \$ - | \$(2,787) | \$(3,351) |

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|---|----------|-------------|------------|------------------------|
| After-tax benefit/(cost): | | | | |
| Stock option expense | \$- | \$ - | \$(1,064) | \$(1,064) |
| Long-term incentive compensation | - | - | (699) | (699) |
| Program closure expenses | 223 | - | - | 223 |
| Expenses related to OIG investigation | (578) | - | - | (578) |
| Excess tax benefits on stock compensation | - | - | 1,783 | 1,783 |
| Total | \$(355) | \$ - | \$ 20 | \$(335) |

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENT OF INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016
(in thousands)(unaudited)

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|-----------|-------------|-------------|------------------------|
| 2016 (a) | | | | |
| Service revenues and sales | \$282,865 | \$ 109,742 | \$ - | \$ 392,607 |
| Cost of services provided and goods sold | 224,410 | 57,248 | - | 281,658 |
| Selling, general and administrative expenses | 21,775 | 28,635 | 8,963 | 59,373 |
| Depreciation | 4,751 | 3,731 | 132 | 8,614 |
| Amortization | 14 | 77 | - | 91 |
| Total costs and expenses | 250,950 | 89,691 | 9,095 | 349,736 |
| Income/(loss) from operations | 31,915 | 20,051 | (9,095) | 42,871 |
| Interest expense | (59) | (78) | (881) | (1,018) |
| Intercompany interest income/(expense) | 1,810 | 800 | (2,610) | - |
| Other income/(expense)—net | (1) | (14) | 1,655 | 1,640 |
| Income/(expense) before income taxes | 33,665 | 20,759 | (10,931) | 43,493 |
| Income taxes | (12,762) | (7,904) | 4,002 | (16,664) |
| Net income/(loss) | \$20,903 | \$ 12,855 | \$ (6,929) | \$ 26,829 |

(a) The following amounts are included in net income (in thousands):

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|---------------------------------------|----------|-------------|------------|------------------------|
| Pretax benefit/(cost): | | | | |
| Stock option expense | \$- | \$ - | \$(1,419) | \$(1,419) |
| Long-term incentive compensation | - | - | (643) | (643) |
| Medicare cap sequestration adjustment | (228) | - | - | (228) |
| Expenses related to OIG investigation | (599) | - | - | (599) |
| Total | \$(827) | \$ - | \$(2,062) | \$(2,889) |

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|---------------------------------------|----------|-------------|------------|------------------------|
| After-tax benefit/(cost): | | | | |
| Stock option expense | \$- | \$ - | \$(897) | \$(897) |
| Long-term incentive compensation | - | - | (406) | (406) |
| Medicare cap sequestration adjustment | (141) | - | - | (141) |
| Expenses related to OIG investigation | (370) | - | - | (370) |
| Total | \$(511) | \$ - | \$(1,303) | \$(1,814) |

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENT OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017
(in thousands)(unaudited)

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|-----------|-------------|-------------|------------------------|
| 2017 (a) | | | | |
| Service revenues and sales | \$855,977 | \$ 382,390 | \$- | \$ 1,238,367 |
| Cost of services provided and goods sold | 663,565 | 195,474 | - | 859,039 |
| Selling, general and administrative expenses | 72,608 | 100,917 | 31,506 | 205,031 |
| Depreciation | 14,048 | 12,322 | 175 | 26,545 |
| Amortization | 14 | 97 | - | 111 |
| Other operating expenses | 91,138 | - | - | 91,138 |
| Total costs and expenses | 841,373 | 308,810 | 31,681 | 1,181,864 |
| Income/(loss) from operations | 14,604 | 73,580 | (31,681) | 56,503 |
| Interest expense | (161) | (259) | (2,744) | (3,164) |
| Intercompany interest income/(expense) | 8,478 | 4,035 | (12,513) | - |
| Other income/(expense)—net | (95) | (85) | 5,619 | 5,439 |
| Income/(expense) before income taxes | 22,826 | 77,271 | (41,319) | 58,778 |
| Income taxes | (8,029) | (29,555) | 22,431 | (15,153) |
| Net income/(loss) | \$14,797 | \$ 47,716 | \$(18,888) | \$ 43,625 |

(a) The following amounts are included in net income (in thousands):

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|-------------|-------------|-------------|------------------------|
| Pretax benefit/(cost): | | | | |
| Potential litigation settlement | \$(90,000) | \$ - | \$- | \$(90,000) |
| Medicare cap sequestration adjustments | (105) | - | - | (105) |
| Stock option expense | - | - | (7,738) | (7,738) |
| Long-term incentive compensation | - | - | (3,021) | (3,021) |
| Expenses related to litigation settlements | - | (213) | - | (213) |
| Program closure expenses | (1,138) | - | - | (1,138) |
| Expenses related to OIG investigation | (5,178) | - | - | (5,178) |
| Total | \$(96,421) | \$(213) | \$(10,759) | \$(107,393) |

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|-------------|-------------|-----------|------------------------|
| After-tax benefit/(cost): | | | | |
| Potential litigation settlement | \$(55,800) | \$ - | \$- | \$(55,800) |
| Medicare cap sequestration adjustments | (65) | - | - | (65) |
| Stock option expense | - | - | (4,892) | (4,892) |
| Long-term incentive compensation | - | - | (1,911) | (1,911) |
| Expenses related to litigation settlements | - | (129) | - | (129) |
| Program closure expenses | (675) | - | - | (675) |
| Expenses related to OIG investigation | (3,198) | - | - | (3,198) |
| Excess tax benefits on stock compensation | - | - | 8,121 | 8,121 |
| Total | \$(59,738) | \$(129) | \$ 1,318 | \$(58,549) |

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENT OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
(in thousands)(unaudited)

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|-----------|-------------|-------------|------------------------|
| 2016 (a) | | | | |
| Service revenues and sales | \$839,131 | \$ 334,274 | \$- | \$ 1,173,405 |
| Cost of services provided and goods sold | 662,371 | 173,977 | - | 836,348 |
| Selling, general and administrative expenses | 69,197 | 87,890 | 23,959 | 181,046 |
| Depreciation | 14,346 | 10,860 | 413 | 25,619 |
| Amortization | 41 | 233 | - | 274 |
| Other operating expenses | 4,491 | - | - | 4,491 |
| Total costs and expenses | 750,446 | 272,960 | 24,372 | 1,047,778 |
| Income/(loss) from operations | 88,685 | 61,314 | (24,372) | 125,627 |
| Interest expense | (176) | (264) | (2,391) | (2,831) |
| Intercompany interest income/(expense) | 5,840 | 2,614 | (8,454) | - |
| Other income/(expense)—net | 76 | (2) | 1,859 | 1,933 |
| Income/(expense) before income taxes | 94,425 | 63,662 | (33,358) | 124,729 |
| Income taxes | (35,887) | (24,446) | 12,158 | (48,175) |
| Net income/(loss) | \$58,538 | \$ 39,216 | \$(21,200) | \$ 76,554 |

(a) The following amounts are included in net income (in thousands):

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|------------|-------------|------------|------------------------|
| Pretax benefit/(cost): | | | | |
| Stock option expense | \$- | \$ - | \$(6,259) | \$(6,259) |
| Medicare cap sequestration adjustment | (228) | - | - | (228) |
| Long-term incentive compensation | - | - | (901) | (901) |
| Early retirement expenses | (4,491) | - | - | (4,491) |
| Expenses related to litigation settlements | - | (44) | - | (44) |
| Expenses related to OIG investigation | (4,105) | - | - | (4,105) |
| Total | \$(8,824) | \$(44) | \$(7,160) | \$(16,028) |

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|------------|-------------|------------|------------------------|
| After-tax benefit/(cost): | | | | |
| Stock option expense | \$- | \$ - | \$(3,958) | \$(3,958) |
| Medicare cap sequestration adjustment | (141) | - | - | (141) |
| Long-term incentive compensation | - | - | (570) | (570) |
| Early retirement expenses | (2,840) | - | - | (2,840) |
| Expenses related to litigation settlements | - | (27) | - | (27) |
| Expenses related to OIG investigation | (2,535) | - | - | (2,535) |
| Total | \$(5,516) | \$(27) | \$(4,528) | \$(10,071) |

Unaudited Consolidating Summary and Reconciliation of Adjusted EBITDA

Chemed Corporation and Subsidiary Companies

(in thousands)

For the three months ended September 30, 2017

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|----------|-------------|------------|------------------------|
| Net income/(loss) | \$26,454 | \$ 16,034 | \$(7,051) | \$ 35,437 |
| Add/(deduct): | | | | |
| Interest expense | 53 | 73 | 922 | 1,048 |
| Income taxes | 15,248 | 9,833 | (6,246) | 18,835 |
| Depreciation | 4,529 | 4,268 | 22 | 8,819 |
| Amortization | - | 33 | - | 33 |
| EBITDA | 46,284 | 30,241 | (12,353) | 64,172 |
| Add/(deduct): | | | | |
| Intercompany interest expense/(income) | (2,950) | (1,378) | 4,328 | - |
| Interest income | (48) | (4) | - | (52) |
| Expenses related to OIG investigation | 935 | - | - | 935 |
| Program closure expenses | (371) | - | - | (371) |
| Amortization of stock awards | 72 | 67 | 156 | 295 |
| Advertising cost adjustment | - | (162) | - | (162) |
| Stock option expense | - | - | 1,683 | 1,683 |
| Long-term incentive compensation | - | - | 1,104 | 1,104 |
| Adjusted EBITDA | \$43,922 | \$ 28,764 | \$(5,082) | \$ 67,604 |

For the three months ended September 30, 2016

| | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|-------|-------------|-----------|------------------------|
|--|-------|-------------|-----------|------------------------|

| | | | | |
|--|----------|-----------|------------|-----------|
| Net income/(loss) | \$20,903 | \$ 12,855 | \$(6,929) | \$ 26,829 |
| Add/(deduct): | | | | |
| Interest expense | 59 | 78 | 881 | 1,018 |
| Income taxes | 12,762 | 7,904 | (4,002) | 16,664 |
| Depreciation | 4,751 | 3,731 | 132 | 8,614 |
| Amortization | 14 | 77 | - | 91 |
| EBITDA | 38,489 | 24,645 | (9,918) | 53,216 |
| Add/(deduct): | | | | |
| Intercompany interest expense/(income) | (1,810) | (800) | 2,610 | - |
| Interest income | (108) | (11) | - | (119) |
| Expenses related to litigation settlements | 1,149 | - | - | 1,149 |
| Expenses related to OIG investigation | 599 | - | - | 599 |
| Medicare cap sequestration adjustment | 228 | - | - | 228 |
| Amortization of stock awards | 85 | 76 | 279 | 440 |
| Advertising cost adjustment | - | (188) | - | (188) |
| Stock option expense | - | - | 1,419 | 1,419 |
| Long-term incentive compensation | - | - | 643 | 643 |
| Adjusted EBITDA | \$38,632 | \$ 23,722 | \$(4,967) | \$ 57,387 |

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Unaudited Consolidating Summary and Reconciliation of Adjusted EBITDA

Chemed Corporation and Subsidiary Companies
(in thousands)

| For the nine months ended September 30, 2017 | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|-----------|-------------|-------------|------------------------|
| Net income/(loss) | \$14,797 | \$ 47,716 | \$(18,888) | \$ 43,625 |
| Add/(deduct): | | | | |
| Interest expense | 161 | 259 | 2,744 | 3,164 |
| Income taxes | 8,029 | 29,555 | (22,431) | 15,153 |
| Depreciation | 14,048 | 12,322 | 175 | 26,545 |
| Amortization | 14 | 97 | - | 111 |
| EBITDA | 37,049 | 89,949 | (38,400) | 88,598 |
| Add/(deduct): | | | | |
| Intercompany interest expense/(income) | (8,478) | (4,035) | 12,513 | - |
| Interest income | (267) | (29) | - | (296) |
| Potential litigation settlement | 90,000 | - | - | 90,000 |
| Medicare cap sequestration adjustment | 105 | - | - | 105 |
| Program closure expenses | 1,138 | - | - | 1,138 |
| Expenses related to OIG investigation | 5,178 | - | - | 5,178 |
| Stock award amortization | 220 | 203 | 510 | 933 |
| Advertising cost adjustment | - | (707) | - | (707) |
| Expenses related to litigation settlements | - | 213 | - | 213 |
| Stock option expense | - | - | 7,738 | 7,738 |
| Long-term incentive compensation | - | - | 3,021 | 3,021 |
| Adjusted EBITDA | \$124,945 | \$ 85,594 | \$(14,618) | \$ 195,921 |

| For the nine months ended September 30, 2016 | VITAS | Roto-Rooter | Corporate | Chemed Consolidated |
|--|-----------|-------------|-------------|------------------------|
| Net income/(loss) | \$58,538 | \$ 39,216 | \$(21,200) | \$ 76,554 |
| Add/(deduct): | | | | |
| Interest expense | 176 | 264 | 2,391 | 2,831 |
| Income taxes | 35,887 | 24,446 | (12,158) | 48,175 |
| Depreciation | 14,346 | 10,860 | 413 | 25,619 |
| Amortization | 41 | 233 | - | 274 |
| EBITDA | 108,988 | 75,019 | (30,554) | 153,453 |
| Add/(deduct): | | | | |
| Intercompany interest expense/(income) | (5,840) | (2,614) | 8,454 | - |
| Interest income | (256) | (45) | - | (301) |
| Early retirement expenses | 4,491 | - | - | 4,491 |
| Expenses related to OIG investigation | 4,105 | - | - | 4,105 |
| Stock award amortization | 302 | 230 | 883 | 1,415 |
| Medicare cap sequestration adjustment | 228 | - | - | 228 |
| Expenses related to litigation settlements | 1,149 | 44 | - | 1,193 |
| Advertising cost adjustment | - | (1,353) | - | (1,353) |
| Stock option expense | - | - | 6,259 | 6,259 |
| Long-term incentive compensation | - | - | 901 | 901 |
| Adjusted EBITDA | \$113,167 | \$ 71,281 | \$(14,057) | \$ 170,391 |

RECONCILIATION OF ADJUSTED NET INCOME

(in thousands, except per share data)(unaudited)

| | Three Months | | Nine Months Ended | |
|---|--------------------------|----------|--------------------|----------|
| | Ended September 30, 2017 | 2016 | September 30, 2017 | 2016 |
| Net income/(loss) as reported | \$35,437 | \$26,829 | \$43,625 | \$76,554 |
| Add/(deduct) after-tax cost of: | | | | |
| Excess tax benefits on stock compensation | (1,783) | - | (8,121) | - |
| Stock option expense | 1,064 | 897 | 4,892 | 3,958 |
| Long-term incentive compensation | 699 | 406 | 1,911 | 570 |
| Expenses of OIG investigation | 578 | 370 | 3,198 | 2,535 |
| Program closure expenses | (223) | - | 675 | - |
| Medicare cap sequestration adjustment | - | 141 | 65 | 141 |
| Potential litigation settlement | - | - | 55,800 | - |
| Expenses related to litigation settlements | - | - | 129 | 27 |
| Early retirement expenses | - | - | - | 2,840 |
| Adjusted net income | \$35,772 | \$28,643 | \$102,174 | \$86,625 |
| Diluted Earnings Per Share As Reported | | | | |
| Net income/(loss) | \$2.13 | \$1.62 | \$2.60 | \$4.54 |
| Average number of shares outstanding | 16,676 | 16,559 | 16,763 | 16,851 |
| Adjusted Diluted Earnings Per Share | | | | |
| Adjusted net income | \$2.15 | \$1.73 | \$6.10 | \$5.14 |
| Adjusted average number of shares outstanding | 16,676 | 16,559 | 16,763 | 16,851 |

-32-

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
OPERATING STATISTICS FOR VITAS SEGMENT

(unaudited)

| OPERATING STATISTICS | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-----------|-------------------|-----------|
| | September 30, | | September 30, | |
| Net revenue (\$000) | 2017 | 2016 | 2017 | 2016 |
| Homecare | \$236,565 | \$225,348 | \$693,359 | \$659,477 |
| Inpatient | 22,516 | 23,850 | 68,439 | 73,856 |
| Continuous care | 29,870 | 33,895 | 94,426 | 106,026 |
| Total before Medicare cap allowance | \$288,951 | \$283,093 | \$856,224 | \$839,359 |
| Medicare cap allowance | - | (228) | (247) | (228) |
| Total | \$288,951 | \$282,865 | \$855,977 | \$839,131 |
| Net revenue as a percent of total before Medicare cap allowances | | | | |
| Homecare | 81.9 | % 79.6 | % 81.0 | % 78.6 |
| Inpatient | 7.8 | 8.4 | 8.0 | 8.8 |
| Continuous care | 10.3 | 12.0 | 11.0 | 12.6 |
| Total before Medicare cap allowance | 100.0 | 100.0 | 100.0 | 100.0 |
| Medicare cap allowance | - | (0.1) | - | - |
| Total | 100.0 | % 99.9 | % 100.0 | % 100.0 |
| Average daily census (days) | | | | |
| Homecare | 12,596 | 12,223 | 12,444 | 11,972 |
| Nursing home | 3,254 | 3,077 | 3,148 | 3,028 |
| Routine homecare | 15,850 | 15,300 | 15,592 | 15,000 |
| Inpatient | 354 | 394 | 358 | 406 |
| Continuous care | 448 | 507 | 475 | 530 |
| Total | 16,652 | 16,201 | 16,425 | 15,936 |
| Total Admissions | 16,000 | 16,157 | 49,874 | 49,205 |
| Total Discharges | 15,726 | 15,690 | 49,074 | 48,403 |
| Average length of stay (days) | 89.5 | 87.7 | 87.9 | 85.2 |
| Median length of stay (days) | 16.0 | 16.0 | 16.0 | 16.0 |
| ADC by major diagnosis | | | | |
| Cerebro | 35.6 | % 32.9 | % 35.0 | % 32.2 |
| Neurological | 18.9 | 20.7 | 19.4 | 21.3 |
| Cardio | 16.6 | 17.1 | 16.6 | 17.3 |
| Cancer | 14.4 | 15.5 | 14.8 | 15.3 |
| Respiratory | 7.9 | 7.8 | 7.9 | 7.8 |
| Other | 6.6 | 6.0 | 6.3 | 6.1 |
| Total | 100.0 | % 100.0 | % 100.0 | % 100.0 |
| Admissions by major diagnosis | | | | |
| Cerebro | 22.0 | 21.2 | % 21.9 | % 20.9 |
| Neurological | 10.0 | 11.0 | 10.5 | 11.0 |
| Cancer | 31.5 | 33.3 | 30.8 | 31.9 |
| Cardio | 14.9 | 14.4 | 15.1 | 15.3 |
| Respiratory | 10.6 | 9.0 | 10.9 | 10.1 |
| Other | 11.0 | 11.1 | 10.8 | 10.8 |
| Total | 100.0 | % 100.0 | % 100.0 | % 100.0 |
| Direct patient care margins | | | | |
| Routine homecare | 52.4 | % 51.4 | % 52.2 | % 51.8 |
| Inpatient | 3.4 | (2.4) | 4.4 | 2.7 |

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| | | | | |
|---|----------|----------|----------|----------|
| Continuous care | 17.3 | 12.2 | 16.9 | 13.7 |
| Homecare margin drivers (dollars per patient day) | | | | |
| Labor costs | \$56.48 | \$56.53 | \$57.20 | \$56.51 |
| Combined drug, HME and medical supplies | 14.67 | 16.30 | 14.77 | 15.90 |
| Inpatient margin drivers (dollars per patient day) | | | | |
| Labor costs | \$362.48 | \$360.35 | \$369.77 | \$346.61 |
| Continuous care margin drivers (dollars per patient day) | | | | |
| Labor costs | \$579.31 | \$618.15 | \$584.82 | \$609.08 |
| Bad debt expense as a percent of revenues | 1.1 | % 1.2 | % 1.1 | % 1.2 |
| Accounts receivable -- Days of revenue outstanding- excluding unapplied Medicare payments | 34.6 | 38.4 | n.a | n.a. |
| Accounts receivable -- Days of revenue outstanding- including unapplied Medicare payments | 19.9 | 20.7 | n.a | n.a. |

-33-

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995 Regarding Forward-Looking Information

Certain statements contained in this report are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. The words “believe”, “expect”, “hope”, “anticipate”, “plan” and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. These forward-looking statements are based on current expectations and assumptions and involve various known and unknown risks, uncertainties, contingencies and other factors, which could cause Chemed’s actual results to differ from those expressed in such forward-looking statements. 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. In addition, our ability to deal with the unknown outcomes of these events, many of which are beyond our control, may affect the reliability of projections and other financial matters. Investors are cautioned that such forward-looking statements are subject to inherent risk and there are no assurances that the matters contained in such statements will be achieved. Chemed does not undertake and specifically disclaims any obligation to publicly update or revise any forward-looking statements, whether as a result of a new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company’s primary market risk exposure relates to interest rate risk exposure through its variable interest line of credit. At September 30, 2017, the Company had \$82.5 million of variable rate debt outstanding. For each \$10 million dollars borrowed under the credit facility, an increase or decrease of 100 basis points (1% point), increases or decreases the Company’s annual interest expense by \$100,000.

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

Item 4. Controls and Procedures

We carried out an evaluation, under the supervision of our President and Chief Executive Officer and with the participation of the Executive Vice President and Chief Financial Officer and the Vice President and Controller, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the President and Chief Executive Officer, Executive Vice President and Chief Financial Officer and Vice President and Controller have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report. There has been no change in our internal control over financial reporting that occurred during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding the Company’s legal proceedings, see note 10, Legal and Regulatory Matters, under Part I, Item I of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in the Company’s most recent Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Item 2(c). Purchases of Equity Securities by Issuer and Affiliated Purchasers

The following table shows the activity related to our share repurchase program for the first nine months of 2017:

| | Total Number of Shares Repurchased | Weighted Average Price Paid Per Share | Cumulative Shares Repurchased Under the Program | Dollar Amount Remaining Under The Program |
|--|---|---|---|--|
| <u>February 2011 Program</u> | | | | |
| January 1 through January 31, 2017 | - | \$ - | 7,315,718 | \$50,173,009 |
| February 1 through February 28, 2017 | 104,358 | 178.39 | 7,420,076 | 31,556,555 |
| March 1 through March 31, 2017 | 195,642 | 182.20 | 7,615,718 | \$95,910,768 |
| First Quarter Total | 300,000 | \$ 180.87 | | |
| April 1 through April 30, 2017 | - | \$ - | 7,615,718 | \$95,910,768 |
| May 1 through May 31, 2017 | 150,000 | 205.34 | 7,765,718 | 65,109,586 |
| June 1 through June 30, 2017 | - | - | 7,765,718 | \$65,109,586 |
| Second Quarter Total | 150,000 | \$ 205.34 | | |
| July 1 through July 31, 2017 | - | \$ - | 7,765,718 | \$65,109,586 |
| August 1 through August 31, 2017 | 47,726 | 191.53 | 7,813,444 | 55,968,634 |
| September 1 through September 30, 2017 | 2,274 | 191.42 | 7,815,718 | \$55,533,344 |
| Third Quarter Total | 50,000 | \$ 191.52 | | |

On March 13, 2017 our Board of Directors authorized an additional \$100 million under the February 2011 Repurchase Program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No. Description

| | |
|---------|--|
| 31.1 | Certification by Kevin J. McNamara pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934. |
| 31.2 | Certification by David P. Williams pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934. |
| 31.3 | Certification by Michael D. Witzeman pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934. |
| 32.1 | Certification by Kevin J. McNamara pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification by David P. Williams pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.3 | Certification by Michael D. Witzeman pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Chemed Corporation
(Registrant)

Dated: October 27, 2017 By: /s/ Kevin J. McNamara
Kevin J. McNamara
(President and Chief Executive Officer)

Dated: October 27, 2017 By: /s/ David P. Williams
David P. Williams
(Executive Vice President and Chief Financial Officer)

Dated: October 27, 2017 By: /s/ Michael D. Witzeman
Michael D. Witzeman

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(Vice President and Controller)

-36-